EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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WEST GERMANY
Shipyards see the silver lining
Page 7

World News

Warsaw Pact likely to face calls for reform

Warsaw Pact foreign ministers, who today start their first formal meeting since political reforms in Poland and Hungary caused a rift in the alliance, are expected to hear calls from those two countries for a looser structure. Page 18

Bhutto seeks help
The government of Pakistan's Prime Minister, Mrs Benazir Bhutto, was engaged in negotiations to save itself from a no-confidence vote expected on Sunday as fears grew that a general election may have to be called. Page 6

China crackdown
China's crackdown on liberals entered a fresh phase that has seen the arrest of more intellectuals and a ban on social contact between officials and foreign diplomats. Page 6

Soviet miners strike
The most radical coal-miners in the Soviet Union went on strike again in defiance of a new ban approved by the Soviet Parliament. Page 2

Bush unruffled
President George Bush says he does not share European and Soviet fears at the prospect of East and West Germany reuniting. Page 7

Indians riot
Troops were called out to halt riots between Hindus and Muslims in which 17 people have been killed in Bhagalpur, India, as the general election campaign heated up. Page 6

Reagan Contra notes
A judge ruled that Former President Ronald Reagan will have to turn over his private notes and diaries on the Iran-Contra scandal for the trial of his national security adviser John Poindexter.

Forests for sale
New Zealand put its state forests up for sale in what will be the country's biggest privatisation so far. Page 21

Bomb blast in Hague
Bomb wrecked the car of a Spanish diplomat outside his home in The Hague damaging nearby vehicles and buildings but causing no injuries.

Brazil town buried
At least three people died and dozens of slum dwellers injured when a man-made hill collapsed, burying the Nova Republica shantytown under 45 feet of earth.

24 killed in Kandy
The bodies of 24 young men, their throats slashed, were strewn across a road in the Sri Lankan town of Kandy and 10 other people were also killed there by death squads.

Dounreay go ahead
UK government gave planning approval for a new reprocessing plant for spent nuclear fuel in Dounreay, northern Scotland. Page 6

France aids Poland
French Government approved an emergency three-year aid plan for Poland worth almost Ffr4bn ($640m).

Reaching for the sky
Two British businessmen plan to build the world's tallest skyscraper in an industrialised area of central England which will afford views of factories and waste land. Page 9

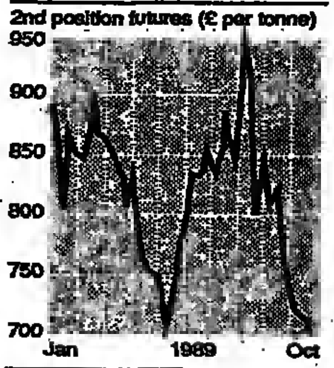
Business Summary

Soviet Union adopts dual rates for the rouble

THE Kremlin took action to contain the Soviet Union's rampant currency black market by announcing a new dual exchange rate for the rouble. Gosbank, the Soviet state bank, announced a new "special rate" for the Russian currency involving a 90 per cent devaluation for all personal transactions. Page 18

COCOA: cocoa prices closed at the lowest level for 14 years on the London futures market amid talk of Ivory Coast selling. The March position ended at £703 a tonne, £16 down on the day, after dipping to £699 at one point. Commodities, Page 27

Cocoa



FARM Trade Reform: the EC rejected the new US initiative on world farm trade reform as a basis for further talks. Page 7

UNITED Scientific Holdings, troubled defence contractor, had its campaign to avoid being taken over by Meggitt, the specialist engineering group, thrown into disarray by US regulators. Page 19

BURMAH Oil, world's biggest specialist lubricants group, said it has set up a joint venture in Poland through its Castrol subsidiary in W Germany. Page 19

HARRIS Tweed: Clansman Holdings, which employs 100 people in Stornoway, Scotland, working Harris Tweed weaved by crofters on the Hebridean islands of Lewis and Harris, called in the receiver because of losses it attributes to trends in fashion in the US. Page 9

EXPORT Credits: Britain's ECGD proposed to its EC counterparts that they undertake a piecemeal approach to harmonising their policies on export credits. Page 7

EUROPEAN Monetary Union: the EC is to produce a special report by the end of this year to try to convince member states of the merits of economic and monetary union. Page 3

NOMURA International, largest Japanese securities firm, has become the first Japanese dealer in the sterling commercial paper market. Page 24

NORFOLK Southern, leading railway holding company, reported third-quarter profits down 16 per cent at $150.5m reflecting a flattening of US economic activity. Page 22

DELTA Air Lines, third ranking US domestic carrier, bucked a trend towards weaker sectoral results with a 33 per cent jump in first-quarter net income to $133.1m. Page 22

BEGHIN-SAY, French sugar and oils group controlled by Italy's Ferruzzi, is to sell its remaining paper interests for FFr2.03bn ($325m). Page 20

SKANSKA, Sweden's largest construction company, increased profits items by 57 per cent to SKr1.48bn ($230m) during the first eight months of 1989. Page 20

MOBIL and Chevron, two leading US oil companies, reported stagnant earnings for the third quarter due to declining profitability in refining and chemicals businesses. Page 22

Greenspan insists inflation remains priority for Fed

By Peter Riddell, US Editor, in Washington

THE current rate of US inflation was "much too high to be ignored," Mr Alan Greenspan, the Federal Reserve's chairman, warned yesterday, stressing that the Fed's main focus was on domestic economic problems rather than the level of the dollar.

During wide-ranging congressional testimony, Mr Greenspan underlined the Fed's continuing concern with reducing inflation, currently around 4.5 per cent in the US.

His comments were seen by Fed-watchers as highlighting the Fed's current caution about any early substantial easing of US monetary policy and of interest rates.

Similarly, Mr Greenspan pointed to the limits on how far intervention in foreign exchange markets could influence the level of the dollar. This follows reports of recent disputes among policymakers, including public dissent by two Fed governors, over the extent of intervention to force down the dollar.

Intervention, he said, was not aimed at holding back market forces. Instead, the goal of the Fed and the Treasury was the more limited objective of dampening near-term market instability.

Neither body believed that intervention could force exchange markets in one direction if that was contrary to very large private flows in the other direction.

He said that as a result of intervention activities the Treasury and the Fed's combined holdings of foreign currencies were now "somewhat above $30bn."

Mr Greenspan acknowledged differences on occasion with Mr Nicholas Brady, the Treasury Secretary, but he sought to play them down as not being "great conflict, but relatively minor issues of tactics." He said there was accord on the fundamental goal of exchange rate stability.

"It is certainly the case that we have differences on occasion on both sides. I have differences with some of my colleagues in the Federal Reserve on these very difficult issues of intervention and exchange rate policy, as indeed Secretary Brady has with the people in the Treasury. "But my impression is that we've worked together exceptionally well."

Nevertheless, Mr Greenspan made clear his opposition to those urging that the priority of interest rate and exchange market policy should be a reduction in the value of the dollar.

He said the Fed's "essential focus is on domestic policy, as it needs to be. We are concerned about the exchange rate in this regard only to the extent that it is an element with respect to the domestic policy and domestic economic outlook of the US."

In relation to the commitment by the Group of Seven leading industrial countries to exchange rate stability, Mr Greenspan said: "The most appropriate way to get stable exchange rates and keep them there is essentially for domestic inflation rates within the G7 to come down to negligible dimensions."

Mr Greenspan was testifying on two contrasting proposals, one to set the goal of the elimination of inflation within five years and another to make the Fed more accountable for its decisions. He endorsed the former and rejected the latter.

Throughout his lengthy testimony, Mr Greenspan stressed his concern over current levels of inflation and the advantages of a reduction broadly to price stability.

In particular, he said the goal of eliminating inflation within five years was achievable without a recession, although there could be "significant costs" in terms of lower growth in the interim.

However, over the longer run, the economic losses that would be incurred in the pursuit of price stability "would surely be more than made up in increased output thereafter."

Mr Greenspan welcomed the proposed goal of price stability because it would direct monetary policy toward a single goal rather than current multiple objectives.

He noted that long-term US interest rates currently contained a substantial premium related to inflationary expectations. If market participants became convinced that the Fed and the Administration truly had a zero-inflation objective, there would be "no question in my mind that we would get an immediate drop in long-term rates."

World stock markets, Page 37

Alan Greenspan, in a congressional testimony, said current rate of US inflation was too high to be ignored

Thatcher adviser faces rebuke over views on EMS

By Philip Stephens, Political Editor, in London

SIR Alan Walters, the economic adviser to Mrs Margaret Thatcher, the UK Prime Minister, is to be told to refrain from making public statements on his role in Government policy-making following the latest row over his views on the European Monetary System.

Downing Street yesterday indicated that Mrs Thatcher will today back Mr Nigel Lawson, the Chancellor of the Exchequer, over his demand that Sir Alan should obey the rules of confidentiality which apply to British civil servants.

She was said to be reluctant, however, to directly attack her adviser over his decision to publish a sharply critical analysis of the European Community's exchange rate mechanism in an American magazine.

Officials were emphasising in his defence yesterday that the article had been prepared long before Sir Alan's return to Mrs Thatcher's office in Downing Street earlier this year.

Mr Lawson, who has been deeply angered by the article, was said by senior Whitehall officials to have raised the issue with the Prime Minister in London yesterday during their regular weekly meeting on the economy.

He was reported to have warned Mrs Thatcher that further statements by Sir Alan about his opposition to full British membership of the EMS would undermine the credibility of Government economic policy.

The meeting followed Mr Lawson's blunt statement earlier this week that Sir Alan was a "part-time adviser" whose views did not represent the policy of the Conservative Government.

In an article to be published in the US, Sir Alan describes the exchange rate mechanism as "half-baked" – apparently in direct contradiction to the Government's stance that it is committed to take sterling into the European system.

Mrs Thatcher will face a call in the House of Commons today from Mr Neil Kinnock, leader of the opposition Labour Party, to demonstrate her confidence in Mr Lawson by dismissing Sir Alan.

A number of influential backbench MPs on the Government's side are also anxious that the Prime Minister end confusion over Government policy by telling him to obey the confidentiality rules or resign from his post.

Mrs Thatcher was said yesterday to be ready to restate the official Government position on the EMS – that it will join when certain conditions have been met by Britain's European Community partners – in the hope of defusing the issue.

She will also emphasise that Sir Alan was not working in her office when he wrote the article – he left Downing Street in 1983 before returning on a part-time basis earlier this year.

Despite the political controversy over his views Mrs Thatcher is said by close aides to have retained a deep respect for Sir Alan's economic views and to share his instinctive scepticism about attempts to fix exchange rates.

The opposition Labour Party is expected to charge today that under the civil service confidentiality rules, Sir Alan should have submitted the article for approval even though he was not at that time employed by the British Government.

The Cabinet Office, which is responsible for the conduct of civil servants, confirmed yesterday that in instances concerning advice to ministers, advisers share the obligation of "life-time confidentiality" on matters of advice to ministers.

Sir Alan, who is currently at his home in Washington DC, is due to return to Downing Street in 10 days time.

But Whitehall officials said that he had already been in touch with the Prime Minister's office over the latest row.

Sir Alan Walters, economics aide to British Prime Minister Margaret Thatcher, who is expected today to back demands that he should obey the rules of confidentiality. Profile, Page 18

Ferranti wins interim banking deal

By Terry Dodsworth in London

FERRANTI International Signal, the beleaguered British electronics group, has reached preliminary agreement on a banking package designed to cover its working capital requirements until the end of next January.

The agreement, hammered out over the last three weeks, with a consortium of about 30 banks, is in its final draft. It is expected to be signed by the end of this month.

Bankers involved in the transaction indicated yesterday that they saw no problem in concluding the arrangement. They said it was taking some time to complete because of the complexity of the funding plan.

The deal gives Ferranti valuable breathing space, while it attempts to reach a solution to its long-term financial crisis.

After the discovery of a suspected international fraud that will demand about £185m worth of write-offs on three overseas contracts, Ferranti has been seeking both to sell assets and arrange an equity injection. It is planning a further recapitalisation, either through a partnership with another company willing to take a stake in the group, or by accepting a takeover offer.

The banking arrangement is believed to involve facilities of about £300m to fund Ferranti's working capital requirements. When the suspected fraud crisis first hit the company early last month, it managed to push through an emergency funding agreement with its banks to keep it afloat for the first few weeks. The deal is intended to put these arrangements on a medium-term footing.

Bankers said yesterday that all members of the original banking consortium had continued to contribute to the package, despita some attempts to defect early last month.

The bankers' agreement on the package indicated that they concurred with the company's plans to try to rescue itself from its financial problems, but equally put limit of about three months on when they expected the company to resolve the crisis.

The first asset sale, of the group's computer maintenance division, which employs about 200, is expected shortly. This will coincide with the completion of the first round of talks with companies willing to purchase some of Ferranti's assets or to consider some form of equity injection.

The group will then embark on more detailed talks with the hard core of companies which it considers to have genuine proposals to make.

Further details of the losses incurred through the suspected fraud are expected within the next two weeks when the company produces its revised report and accounts for consideration at the deferred annual meeting in November.

Mitterrand urges early talks on EC monetary integration

By David Buchan in Strasbourg

THE 12 members of the European Community should, within a year, start revising the Treaty of Rome with a view not only to promoting monetary integration but also strengthening the power of the European Parliament, French President François Mitterrand said yesterday.

Addressing the Strasbourg Assembly, Mr Mitterrand said the decaying of the old order in Eastern Europe meant that, if anything, the EC "should accelerate its own construction."

Soviet President Mikhail Gorbachev was "playing an historical role, and he needs our help," said the French leader, speaking in his capacity as president of the EC Council.

He floated the idea of linking the 12 with Poland, Hungary and even the Soviet Union in a common bank and seemed to suggest that EC regions and cities should adopt Polish regions and cities and furnish them with money and expertise.

As he spoke, his office in Paris released details of a FFr4bn ($640m) aid programme for Poland to be spread over three years. The centrepiece of the French "emergency plan" will be a FFr900m investment fund to help modernisation of the Polish economy.

Treaty reform and policy towards Eastern Europe proved the highlights of Mr Mitterrand's speech which drew together the main elements of policy for the six months of the French presidency.

"I will pin my colours to the mast, and say that I hope that the opening of the conference (to revise the EC treaty) will take place in the autumn of 1990," he said.

The President's linkage of treaty revision with events in Eastern Europe matches the thinking of Mr Jacques Delors, the Commission President and fellow French Socialist.

In six weeks' time, Mr Mitterrand will chair an EC summit in Strasbourg at which he wants to get the other leaders to set a date for a treaty-revising conference in the second half of 1990.

In his speech, he raised the possibility that the treaty would be open to revision on issues other than monetary union, itself a momentous and controversial question on which he is at odds with Britain.

He stressed that though the European Parliament could not be a direct party to the intergovernment conference, it could hold a parallel meeting and make proposals which could be thrown into the state-to-state bargaining.

Mr Mitterrand seemed almost to be repeating yesterday his role during a previous French presidency in 1984 when, in a keynote speech in Strasbourg, he backed a Parlia-

Continued on Page 18

Getting EMU off the ground, Page 3

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MARKETS

STERLING
New York closing:
$1.614
London:
$1.6095 (1.6065)
DM2.9625 (2.955)
FFr10.0625 (10.0375)
SFr2.5925 (2.59)
Y228 (227.5)
£ Index 90.1 (89.8)

GOLD
New York: Comex Dec
$(373.4)
London:
$(368.25)

N SEA OIL (Argus)
Brent 15-day Nov
$(18.825)

Chief price changes yesterday: Page 19

DOLLAR
New York closing
DM1.836
FFr6.234
SFr1.6076
Y141.6
London:
DM1.8405 (1.839)
FFr6.2525 (6.2425)
SFr1.6115 (1.612)
Y141.6 (141.55)
$ Index 69.3 (69.4)
Tokyo close: Y141.55

US LUNCHTIME RATES
Fed Funds $8\frac{11}{16}$%
3-mo Treasury Bills: yield: 7.8%
Long Bond: $102\frac{27}{32}$
yield: 7.87%

STOCK INDICES
FT-SE 100:
2,161.9 (+12.8)
FT Ordinary:
1,751.9 (+12.6)
FT-A All-Share:

New York closing
DJ Ind. Av.
2,653.28 (-6.94)
S&P Comp
343.98
Tokyo: Nikkei
35,442.4 (−84.15)

LONDON MONEY
3-month interbank:
closing $15\frac{1}{16}$% (same)
Liffe long gilt future:
Dec $93\frac{21}{32}$ ($93\frac{7}{32}$)

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COMMODITIES, Page 27, EQUITIES Pages 29 (London), 37 (World)

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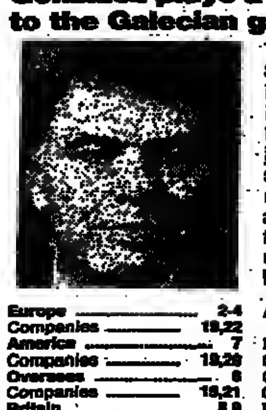
Gonzalez plays a rousing tune to the Galecian gallery



Tha last week before Spain goes to the polls is a torture for Prime Minister Felipe Gonzalez (left). If he loses just nine of his 184 seats he loses his majority, and at present the idea of a coalition government is unthinkable. Page 3

Commission questions French airline pact

By **Tim Dickson** in Brussels

FRANCE and the European Commission are set for another battle over competition policy following last night's decision by the Brussels executive to "*engage in a dialogue*" over the terms of a controversial route sharing agreement between Air France and its domestic counterpart Air Inter.

The issue is delicate because the Commission is engaged in a broader investigation of the French air transport industry.

A decision will have to be taken soon, for example, over the complaint of another French airline, UTA, that the Paris Government has rejected its application to fly to various European destinations, while the cross shareholdings in Air Inter (in which UTA and Air France both have a 35 per cent stake) has also been put under the Commission microscope.

Besides the inevitable French pressure being exerted in Community corridors, the attitude of the Brussels authorities may be shaped by tactical considerations during discussion of the Commission's latest airline liberalisation package.

France is known to be distinctly lukewarm about aspects of these proposals and there are those in Brussels who feel that tough application of the competition rules in the cases now being scrutinised will only complicate negotiations in the Council of Ministers when they get under way at the end of the year. Others, notably the Competition Commissioner, Sir Leon Brittan, argue that effective use of the Commission's powers is the only way to achieve a freer internal market in air transport.

Yesterday's decision concerns an agreement between the two French airlines signed in March, which allows Air Inter flights to five European cities to be operated under the Air France flag, and five Air France flights to French cities to operate under the Air Inter flag. The Commission says it is not convinced that the agreement is necessary to ensure frequent services, or that "tariff autonomy" is assured. Its doubts, however, do not rule out agreement at a later stage.

Krenz says he is willing to talk to opposition groups

By **Leslie Colitt** in Berlin

EAST GERMANY's new leader, Mr Egon Krenz, faced with mounting countrywide protest demonstrations against him, said yesterday he was willing to talk to opposition groups including the largest of them, New Forum.

"Let us get rid of the term opposition and say that there are citizens in the German Democratic Republic who have ideas on how to move things forward in this country," he said. Asked if this included New Forum, which has more than 30,000 members, he said: "Every idea is needed. And in the exchange of opinions no citizen is excluded."

Mr Krenz spoke the morning after more than 10,000 East Germans protested in front of parliament in East Berlin against his election as head of state.

The crowd chanted "Egon Krenz we are the competition" and held aloft banners saying "No Krenz. Free elections." The police did not intervene.

Mr Krenz also indicated a strong interest in improving ties with West Germany. He extended an invitation to Mr Helmut Kohl, the West German Chancellor, to meet him in East Germany but noted that first he had to concentrate on "domestic problems." Mr Krenz said he expected to speak to Mr Kohl on the telephone shortly.

His remarks were made after holding talks with Mr Wolfgang Mischnik, the parliamentary Whip of the liberal Free Democratic Party in Bonn, Mr Kohl's junior coalition partner. It was Mr Krenz's first meeting with a Western politician since he replaced Mr Erich Honecker last week.

The East German leader told reporters afterwards that "every citizen" would be able to obtain a passport and a visa to travel to the West under a new travel law being prepared. He spoke with Mr Mischnik about related "difficult questions," which included respecting East German citizenship, and economic questions.

"But if one approaches the matter co-operatively one can solve a great deal," he said.

Mr Mischnik said that East Germany would have to be able to earn the hard currency needed by its citizens for travel to West Germany. They discussed ways to achieve this, including an expansion of trade and economic cooperation between the two Germanys. An East German party official noted recently that the country would need about DM3.5bn (£1.2bn) annually to cover 7m visits to West Germany.

Mr Krenz hopes that liberalised travel will pacify East Germans and blunt the demands for political reforms which brought hundreds of thousands of citizens into the streets of East German cities this month.

He was given another reminder, however, of the extent of disaffection in the country by one of East Germany's most prominent musicians – and a party member. Professor Kurt Masur, the conductor of the Gewandhaus orchestra in Leipzig, said neither the party nor the Government "commands the trust of the people any more."

He warned in an interview with Der Morgen, the increasingly reformist official newspaper of the Liberal Democratic party, which is allied with the Communist party, that people would continue to demonstrate in Leipzig as long as the party did not take their views into account.

The ruling politburo announced a meeting of the central committee for November 8-10 which would give Mr Krenz the opportunity to remove ageing orthodox members of the politburo and replace them with younger, more reform-minded officials. Mr Günter Mittag, the key politburo official responsible for the economy, was already removed last week, as was Mr Joachim Herrmann, who was in charge of the media.

Hopes are widespread that Mr Hans Modrow, the party leader of Dresden district, who is known to advocate economic reforms, will replace Mr Mittag.

Bonn's reprocessing commitment questioned

By **David Goodhart** in Bonn

THE CONTINUING commitment of the West German utilities to any form of nuclear reprocessing is being increasingly called into doubt, according to industry sources in Britain, Germany and France.

Earlier this year the utilities, led by Veba, decided to abandon the German reprocessing centre planned at Wackersdorf in favour of the much cheaper reprocessing offered by Cogema in France and BNFL in Britain. But now a complete pullout looks possible as a result of both political and economic pressures.

One of the first indications of this has come in negotiations with Cogema and BNFL where the German utilities proposed cancellation clauses in the event of political changes in Bonn.

Mr Derek May, BNFL's director of corporate development, said yesterday: "The current developments in Germany are a cause of concern for us."

He said that cancellation clauses would not be accepted but that the utilities were now insisting on contracts of only 5 to 7 years rather than the 15 years originally planned.

These changes are, at best, likely to postpone the conclusion of contracts with Cogema and BNFL until next year.

Other longer-term threats to reprocessing include:

- the political hostility of the Social Democrats, who could form part of the next government, and even of some parts of the ruling Christian Democrat party;
- the legal challenge, which may finally go before the Constitutional Court next year, that reprocessing is illegal;
- differences amongst the utilities themselves about whether reprocessing is economically viable now that Germany has abandoned it's fast-breeder reactor. On this final point the smaller utilities such as VEW are thought to be most strongly opposed.

The latest edition of the specialist publication, Nucleonics Week, quotes a Cogema official saying: "There are now three camps amongst the German utilities - those who still want to reprocess, those under political pressure not take a decision and those who have economic doubts about the option."

A recent press report in Germany also claimed that one major utility was investigating the option of direct disposal of spent nuclear fuel rods instead of reprocessing.

Reprocessing is not directly required by law but the existing Atomic Power Law has a strong pro-reprocessing bias, and any wholesale abandonment of reprocessing would probably require an amendment to that law.

Dounreay wins approval for reprocessing plant, Page 8

SOVIET PROTESTS RE-EMERGE

Miners stage strike in defiance of ban

By **Quentin Peel** in Moscow

THE most radical coal-miners in the Soviet Union – at the former penal colony of Vorkuta in the Arctic Circle – yesterday went on strike again in defiance of a new ban approved by the Soviet Parliament.

At least three pits stopped work for the day yesterday in protest at the failure of the authorities to meet the demands made during July's nationwide strikes. They also called for political reforms in Moscow.

A key demand is the repeal of Article Six of the Soviet constitution, which guarantees the leading role of the Communist Party.

Their action came as the Moscow authorities bowed once again to public pressure, and dropped a series of unpopular measures from the new election law for the Russian federation, the largest republic in the country, which would have reinforced the position of the ruling party.

Key proposals now dropped from the law, which was presented to the republic's own Supreme Soviet yesterday, include the plan to reserve some seats in future for "industrial" constituencies, thus giving factory workers – the main supporters of the ruling party – in effect double representation.

Mr Vitaly Vorotnikov, president of the Russian Federation and a leading member of the Politburo, admitted that it had been impossible to work out acceptable regulations to permit such a system.

He also announced that the system of electoral commissions, which last March "screened" all candidates before they were allowed to stand for the Congress of People's Deputies, would be dropped from the federation law. And there would also be no special reserved seats for public organisations like trade unions.

The one issue on which the authorities are refusing to budge is on direct elections for the presidents of each republic, insisting that they should instead be indirectly elected from the ranks of deputies.

The election law compromise shows that the authorities are acutely sensitive to public opinion, and to the heightened militancy apparent in the rash of strikes.

Mr Mikhail Gorbachev himself spelt out his sense of urgency in an extended discussion at Pravda, the Communist Party newspaper, held to mark the replacement of the former conservative editor, Mr Viktor Afanasyev.

He admitted that confusion and misunderstandings in the popular debate over economic reform were delaying presentation of emergency measures to improve critical areas, like the supply of consumer goods.

The Soviet leader has become increasingly bitter in his attacks on his critics, conscious that his own popularity has suffered from the country's economic problems. He also accused the media of concentrating on the problems, at the expense of achievements of perestroika.

In Vorkuta, one of the political demands put forward by the miners is for the separation of the posts of state president and Communist Party leader, both currently held by Mr Gorbachev.

Although their demands are more political than any of the other coalfields, their militancy was reflected earlier in the week when 20,000 miners and other workers also went on a token strike in Mezhdurechensk, the West Siberian town which began last July's mass protest.

A THREE-MONTH battle by the Soviet Prime Minister, Mr Nikolai Ryzhkov, to reinstate one of his closest allies as Deputy Premier responsible for foreign trade has ended in failure.

Mr Vladimir Kamentsev, the former chairman of the State Foreign Economic Relations Commission, and the most important figure in the Soviet Union's external trade and financial activities, is to be replaced by Mr Stepan Sitaryan, a vice-chairman of Gosplan, the state planning committee.

The appointment went through the Soviet Parliament late on Monday evening, bringing to an end an extended battle by Mr Ryzhkov to overcome popular opposition to his nominee.

Mr Kamentsev was first rejected by the Supreme Soviet in mid-July, after allegations of nepotism by members of the Parliament. He was one of two first deputy prime ministers rejected by the assembly in its first flush of independence from the Soviet government and Communist party leadership.

Ever since, both businessmen and diplomats have been assured that Mr Ryzhkov was attempting to reinstate his protege, whom he regarded as an essential member of his government, wrongfully accused. Indeed, many Western businessmen surprised and disappointed at his demise, arguing that he was a key figure in shaking up the Soviet trade bureaucracy.

As recently as last week, British trade officials in Moscow were assured that Mr Kamentsev was still working in his office. However, on Monday, Mr Sitaryan was quietly presented to the Supreme Soviet as the new nominee, and swiftly approved.

He is seen as a competent economist and technocrat in Gosplan, although his appointment underlines the continuing strength of the state planning organisation.

Inquest into BNL affair opposed by Carli

By **Alan Friedman** in Milan

MR GUIDO CARLI, Italy's Treasury minister, said yesterday he was opposed to any parliamentary investigation into the scandal over $3bn of unauthorised Iraqi loan commitments by the Atlanta, Georgia branch of Banca Nazionale del Lavoro (BNL), the nation's biggest bank.

Judicial investigations were already under way, he said. Also a parliamentary inquiry would not be good for the image of Italy's biggest bank at a time when it was trying to resolve the problems created by its new Iraqi loan exposure.

The minister was responding to calls in the Senate for a full inquest into the BNL-Iraqi affair, which first surfaced in August and about which there has been a deafening silence from Rome in recent weeks.

The tight-lipped Mr Carli was last month accused by opposition Communist party legislators of reticence and of refusing to acknowledge that what began as a banking scandal was now seen as a larger politico-military intrigue. The Treasury is BNL's majority shareholder.

In an interview with the Financial Times last month Mr Carli also declined to comment on a secret service report given to Mr Giulio Andreotti, the Prime Minister, which is alleged to go into some detail about how some of the BNL Atlanta money helped finance military industrial plants being used in Iraq's Condor 2 ballistic missile project.

A senior Italian official claimed last week that after an initial spurt of activity by US investigators in Atlanta, as well as by the FBI, the Federal Reserve and the intelligence services, little information was now being transmitted from Washington to Rome. "It has all gone quiet," he said.

In Milan, meanwhile, operators on the bourse are awaiting a decision from Consob, the stockmarket regulatory authority, about when it will allow BNL's privileged shares to resume trading.

Consob halted trading in the non-voting BNL shares on September 5 following a request from the bank.

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EUROPEAN NEWS

Delors tries hard to get EMU off the ground

By David Buchan in Strasbourg

THE EUROPEAN Commission is to produce a special report by the end of this year to try to convince EC states of the merits of economic and monetary union (EMU), Mr Jacques Delors said yesterday.

Launching a European Parliament debate on EMU, both the Commission president and Mr Pierre Bérégovoy, the French Finance Minister, made very clear their joint desire that the Twelve should sit down in the second half of 1990 to write legal arrangements for EMU into the EC treaties.

Closer co-ordination of economic and monetary policies – as all Twelve are committed to achieve by next July – was not enough, Mr Delors said. It could only provide at best "a floating anchor" to inflation, and the Germans would not accept this. Integration was the only answer.

Thus, "there is no alternative", said Mr Delors (unconsciously using one of Mrs Margaret Thatcher's favourite affirmations) to a European central banking system, locked exchange rates and an economic union running in parallel with monetary union.

But he had a warning for those like Ms Carole Tongue who set out the British Socialists' new-found acceptance of EMU on *certain conditions*, such as increased fund transfers from richer EC regions to poorer ones.

Pressure from poorer countries for a further doubling of EC aid could be counter-productive. "You risk creating a political crisis which would mean that the structural funds would not be Ecu19bn (13bn) in 1993," as currently planned, "but Ecu8bn," he said.

Both Mr Delors and Mr Bryan Cassidy, a British Tory MEP and one of the last staunch Thatcherites left in Strasbourg, played the by now well-known game of citing the Delphic utterances of Mr Karl-Otto Pöhl, the Bundesbank president, in support of their contrary arguments.

The Briton had Mr Pöhl arguing for caution, and, equally accurately, Mr Delors had the Bundesbank promising, in the end, to do whatever his political masters wanted, including the creation of EMU, if necessary.

Winding up the debate, Mr Henning Christophersen, the Commissioner responsible for macro-economic affairs, said a start to improved macro-economic and monetary policy co-ordination was urgent. He pointed to the UK as "a perfect example" of how remaining outside the European monetary system "can make it extremely difficult for a state to get out of its imbalances".

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Bonn and US at odds over Nato nuclear study

By David White in Vilamoura

THE WEST GERMAN Government has made clear that it sees a newly-ordered Nato study on nuclear weapon requirements as a step towards negotiations with the Soviet Union to cut short-range nuclear forces.

The study was commissioned by the 14-member Nuclear Planning Group (NPG), which finished a two-day ministerial meeting in the Algarve yesterday. To be carried out by the policy-forming High Level Group of senior officials, it will focus on the role of nuclear arms in allied policy in the event of a successful outcome to the Vienna negotiations on conventional arms reductions.

At their summit in Brussels last May, Nato leaders agreed on the possibility of future talks covering European-based nuclear forces, but made this conditional on the prior achievement and implementation of a Vienna treaty sharply reducing Soviet armoured strength in central Europe.

The compromise patched a bitter division, in which Britain and the US strongly resisted the West German-led case for agreeing to East-West talks on short range nuclear forces (SNF).

Mr Gerhard Stoltenberg, the Bonn Defence Minister, said at the NPG meeting that the new study could be the basis of a mandate for SNF negotiations. It would not imply the "denuclearisation" of Europe but would outline the reductions that a conventional arms treaty would make possible, he told journalists.

He said the High Level Group might report back to ministers on its conclusions in 1991. This would be before the deadline Nato has set itself for a decision on deployment of a new land-based missile to replace the Lance.

However, Mr Stoltenberg's interpretation clashed with the US Administration's. A senior US official said the study would be no more than "conceptual". It would not go into detailed requirements, numbers of weapons systems, the issue of whether there should be negotiations, or what should be negotiated, he said. There was no deadline for the report.

The same official said Mr Dick Cheney, the US Defence Secretary, had informed his Nato colleagues about US progress towards choosing a replacement for Lance. The US development effort remained "on track" for a Nato deployment decision in 1992.

The communique issued after the ministerial meeting reiterated Nato's position that land-based nuclear weapons – along with sea-based and air-launched weapons – would continue to be needed in Europe "in the present circumstances and as far as can be foreseen."

Big fishes gasp in murky Rome waters

By John Wyles in Rome

ASK A Roman to complete the statement "Rome is . . . " and he will probably supply such words as "corrupt" or "polluted" or "chaotic" or, simply, "uninhabitable." And he is unlikely to believe that the election of a new city council this weekend will bring any improvement.

Even allowing for Italian exaggeration, the city's problems are so serious that even the political parties are finding it difficult to avoid some responsibility.

The campaign has proved particularly painful for the Christian Democrats (DC), because the some of the harshest verbal flagellation is being meted out by the city's ex-landlord over the Tiber: the Vatican.

Important elections like this usually serve to simplify the party's normally complicated relationship with the Catholic Church. As the poll approaches, the party wants one thing from the Church – a coded endorsement urging Catholics to fulfil their civic duty by voting for the party of "Christian inspiration."

But thanks to Cardinal Ugo Poletti, the Church is supporting the DC only in the sense that a rope supports a hanging man." After several weeks of struggling to find anything positive to say about the past four years in which a DC mayor has led the city's five-party coalition, he choked out a statement to the effect that in voting Catholics would be experiencing "personal sacrifice and repugnance."

Strong language this, and a measure of a wider concern about the admixture of politics and business in Rome.

Led by Mr Vittorio "the Shark" Sbardella, the DC (but not exclusively the DC) has seemed to swim too comfortably in these murky waters, exploiting power for political and other ends.

This was symbolised by an extraordinary summer night when the city council meeting had been boycotted by all other parties and nine DC members approved 1,200 ordinances involving expenditure of L1,500bn. President Francesco Cossiga intervened to dissolve the council and bring elections forward from next spring.

The campaign has shown Roman politics to be in an advanced state of disintegration. A record 23 lists are being presented representing groups ranging from pensioners to car drivers. Aware of their weakening grasp on voters, the main parties have chosen to launch unprecedentedly quasi-presidential campaigns around their mayoral candidates.

If the strategem works, the Socialists look set to gain most. They have fielded Mr Franco Carrara, a former water-ski champion and currently Tourism Minister, who is the man largely credited with bringing next year's World Cup to Italy.

The DC, with no national figure ready to raise its scorched standard, has resorted to an obscure academic, Mr Antonio Geraci. Discussion of post-election alliances has drowned out any consideration of the capital's wretched problems.

Only the Communists have tried to raise "the moral question." But if other recent local elections are anything to go by, they will lose votes. It will be very much business as usual in Rome next week.

Felipe Gonzalez, the great conductor, plays a rousing tune to the Galician gallery

Peter Bruce witnesses a masterly campaign performance by Spain's Prime Minister

IF FELIPE GONZALEZ is the great betrayer of the Spanish working class, if he is master of a corrupt empire that lines its pockets at the expense of the people his Socialist Government was first elected to help, then the 12,000 ruddy-faced and toil-hardened Galicians packed into the beachside sports stadium in La Coruña have not yet heard the news.

They have been there for hours, stomping and singing. A 12-strong swing band on the stage has moved through Glen Miller's "In The Mood" and into a rocking version of the "Ode to Joy" from Beethoven's Ninth. People are twisting and swaying high up in the terraces. The noise is incredible.

This is a *mitin*, a political rally. Just a week off the elections of October 29, the Socialist leader has come north to rally the faithful. It will be a close run thing. His absolute majority in Parliament in Madrid is in great danger.

While the crowd is warming up, Mr Gonzalez is holding a news conference underneath the terraces. Just back from a 24-hour trip to Washington, and suffering from a cold, he looks exhausted. Luckily, a silly question from a British television reporter gets him talking. The words come rolling out. He is practising. Someone asks whether he, as a child of the 1968 student rebellions, has not drifted too far away from the heady ideals of those days.

It has become a key question as the Communist party begins to make headway in the polls at tha Socialists' expense. He says he is being criticised for being obsessed with the economy. Not true, but without a strong economy the things that really matter cannot be paid for. "If the left want to change the future, they have to learn to govern the present." Then he is gone.

A few minutes later, the swing band is gone, too, and the louspeakers strike up a stirring fanfare suspiciously like the theme from "Chariots of Fire". He comes into the hall and the crowd finds a hidden decibel reserve to greet him.

In Spain, Mr Gonzalez is not the Prime Minister, He is *el presidente* of the Government. When he strides up to the podium, a victory sign in one hand

Felipe Gonzalez is trying to buck the system for the third time. If he succeeds, it will be a close run thing

and a long stemmed red rose in the other, he is a different man. Smiling, waving the crowd on, there is a presence about him.

It is easy to forget what an operator this man is. In a system of proportional representation designed to avoid one-party majorities, he has done it twice. A third time would be almost miraculous. He is a superstar, to be handled with care. Between elections, he holes up in his presidential complex in Madrid. Even now, on the hustings, he does not mix.

He starts off with a joke. Then he reminds the crowd that he was just 40-years-old in 1982 when he was last here. Since then, the temples have greyed a little, the leather jacket has gone. He is perhaps even more strident. But as a speaker, there is no-one in Spain to touch him.

His speech, more than an hour long, is quintessential Gonzalez. He lectures, preaches and laughs. After 45 minutes, when he takes off his jacket, he is dripping with perspiration and the crowd roars its approval.

"Felipe, amigo, el pueblo esta contigo," they chant. "Falipa, our friend, tha country is with you." He has no promises, he says. He is standing on his record. (So, for that matter, is everyone else.) Two million extra school places, more clinics, more roads. Pensions have doubled. Spain gets more money out of the European Community than it pays in. The thing is to *govern*.

He goes back to the accusation that he has become obsessed with economics. The economy is just a tool. "If yon want new hospitals, you have to pay. If you want new roads, you have to pay." He always lectures like this but no-one seems to mind.

Didactic yes, but a Thatcherite? No way. He recalls with a chuckle how, under Franco, the state made cars (at SEAT) and private industry built the roads. "We will build the roads," he shouts. He lectures the Poles on the virtues of hard work.

Towards the end he gets to his opponents. "They say they are going to increase services, cut taxes and cut the *public deficit. But they never say how.*" And a special word to Mr Julio Anguita, leader of the Communist Izquierda Unida, who has been seducing young voters away from the Socialists and could ruin chances of a new Gonzalez majority.

"He says the Socialists have been making themselves rich in government, but I promise you that when I leave the Moncloa (his offices) I will leave without baggage. I am not interested in money and I never have been. He (Anguita) is lying. If he has proof (of corruption) then ha should show us what it is."

This last week of the campaign is a torture for Mr Gonzalez. If he loses just nine of his 184 seats he loses his majority, and the polls are too close to call. A coalition Government is, at tha moment, unthinkable, but he may well be forced into a pact with either the Basque or Catalan nationalist parties.

But he is an inflexible man and it is quite possible that if holding a minority Government together becomes uncomfortable, he would go.

That would change Spain dramatically. Foreign investors who have poured more than $45bn into the country since 1986 have done so because Spain is at last stable. But he has been the drawcard.

He calls on the crowd to get out and vote. *"Animo, animo,"* he shouts. "courage, courage." He needs it probably more than they do. He has said he will not campaign again anyway and the moment, as he picks up his jacket to slip behind the stage, is almost poignant.

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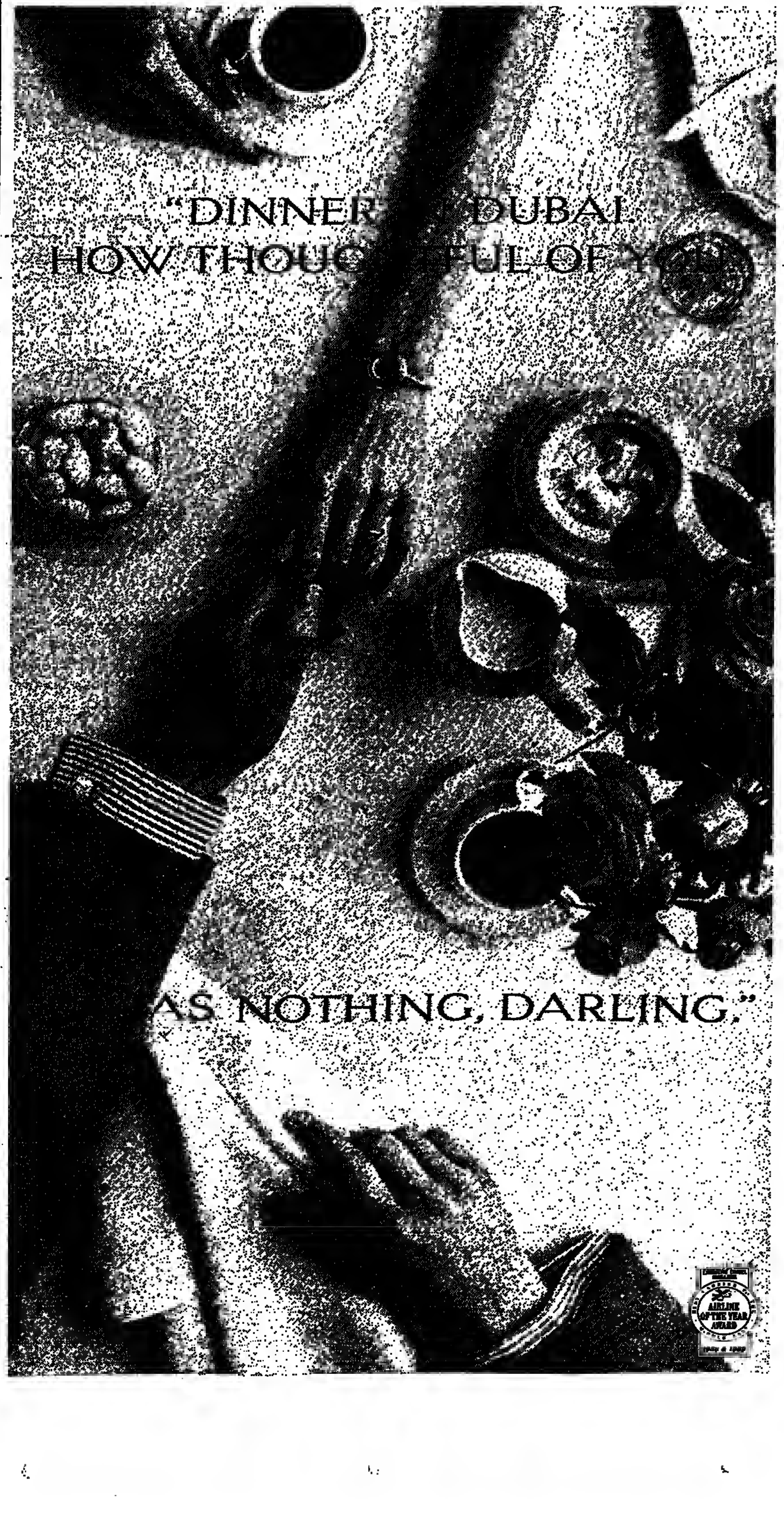

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OVERSEAS NEWS

Malawi turns hawkers into businessmen

Mike Hall on the developing enterprise culture in one of Africa's poorest countries

ANYONE who has been accosted by a coat-hanger salesman or has taken a shoe, watch or radio to a pavement repairman, or heard the hawkers' hard-sell in the market will agree that whatever else Malawi lacks, it has no shortage of entrepreneurs.

What this small Southern African country – one of the world's poorest – lacks is its own entrepreneurs in commerce and industry, which is dominated by public enterprises, foreign-owned firms and a small but prosperous Asian community.

Economists say the lack of indigenous entrepreneurs with capital and business skills is hindering growth. Promoting the public sector or Asian business is politically unacceptable and foreign investment potential is limited.

Malawi is trying to build an indigenous entrepreneurial class by promoting small businesses. "We've put everything in place for the sector to develop," says Mr Isaac Vareta, principle secretary in the Ministry of Trade Industry and Tourism.

The country has attracted the attention of aid donors and other African countries, but the local business community feels much more could be done.

Economic development following independence emphasised agriculture and large-scale investment by the state and foreign-owned private companies. The aspiring Malawian entrepreneur, excluded from commerce and industry during British colonial times, was given little assistance.

Those who did establish their own businesses tended to be a select group, such as politicians or senior civil servants who could obtain capital and had the know-how to seize opportunities.

In the late 1970s growth slackened and the Government placed more emphasis on small, Malawian-owned private enterprise. The shift had already begun, due to political pressure from within the ruling party by businessmen who wanted more opportunities.

Access to capital remains the main problem for small businesses

Rural entrepreneurs had their paths smoothed from the early 1970s. Asians – who owned many village enterprises and *with whom* few Malawians could compete – were forced out of the countryside into the cities.

Many of their businesses have been taken over by Malawians. But most of them lacked management skills, and in 1978 the Government set up the Development of *Malawian* Traders' Trust (Dematt), with funds from a private US group, to provide an advisory service.

Advice was not enough; they needed capital, but the commercial banks would not lend. They viewed Malawian entrepreneurs as a bad risk, so a *new credit organisation* had to be established.

In the early 1980s the private sector was supported by IMF and World Bank-sponsored structural adjustment backed by western aid donors.

In encouraging development, the promotion of small enterprises made sense. They create jobs cheaply; most use local materials, skills and technologies; and in the rural areas such enterprises help stem rural-urban migration.

The Small Enterprise Development Organisation of Malawi (Sedom) was set up in 1983 with European Community *aid. It is now Malawi's* leading small-business institution. In six years Sedom has approved about 3,500 loans worth 14m Kwacha ($5.2m), and claims to have created some 27,800 jobs.

It also provide "mini" loans, of up to 3,000 Kwacha, with no security. Many have been taken up by women who cannot obtain funds elsewhere without a man as guarantor. The highest "term" loan is 75,000 *Kwacha* and interest rates are set at 18 per cent – just below commercial bank rates. Larger amounts – up to 200,000 Kwacha – are provided by the Investment and Development Fund (Indefund), set up in 1981. It has credit lines with the US and West German *aid agencies, and in* 1987 lent 1.8m Kwacha to 21 projects – creating an estimated 561 jobs.

UN funding, meanwhile, helped launch the Malawian Entrepreneurs Development Institute (Medi) in 1985. It has *so far taught* about 300 people basic trades and business management.

The drive toward an entrepreneurial class gathered pace when the lack of information about small businesses prompted the Government to set up the Rural Enterprises and Agrobusiness Development Institutions (Readi) project in 1986. Readi, funded to the tune of 32m Kwacha so far *by USAID*, it carries out research and provides guidance for other bodies.

The efficiency of these operations, however, has so far had only a limited impact. There are, however, tentative plans to expand training, with the university starting a post-graduate course for people wanting to start businesses.

Entrepreneurs complain that access to capital is still their biggest problem. Commercial *bank lending* to the sector is still tiny because of the perceived risks, and many say getting funds from small business institutions is difficult.

Loans are too small or conditions too tough: Indefund requires a 15 per cent own contribution which many cannot afford.

Mr Patrick Mbewe, one of Malawi's most successful entrepreneurs, says *terms and conditions* should be softened. "Getting capital is our biggest problem. We must start somewhere – we have to learn."

Officials at the African Businessman's Association agree. They propose to set up their own bank to cater for their 12,000 members who vary from basket-weavers to medium-*sized industrialists*.

Mr Sam Mpasu, general manager of the chamber of commerce and industry, feels the Government should go even further with a package of fiscal, monetary and regulatory incentives geared towards small enterprises.

Mr Mpasu, however, is optimistic. "A wonderful dialogue has developed between the private sector and Government, who have an enlightened commitment." Officials say they are looking at the tax system, but are worried about revenue. Mr Mpasu believes incentives would bring quick results – "If only they would take the plunge."

Spain seeks a role in North African affairs

By Tom Burns in Madrid

AS France and Spain began their annual inter-ministerial summit in the Spanish city of Valladolid this week, Morocco and the Magreb area figured high on an agenda that has traditionally been dominated by more obviously bilateral issues.

The Spanish Government, *having hosted Morocco's King* Hassan a month ago in what was the monarch's first ever official visit to Spain, is now seeking a role in North African affairs that it has never claimed before and has unveiled a major aid programme to Morocco as part of a larger economic involvement in the Magreb.

Spanish diplomats say that North African policy is, no longer, from a European Community *point of view, a purely* French preserve. They said Madrid learnt during the Moroccan monarch's week-long sojourn in Spain that "France cannot face the challenge of North Africa alone."

King Hassan has formerly channelled his relations with the EC through France and the eagerness with which the monarch last month sought the Spanish government's favours as well came as something of a *surprise* to *Madrid's Foreign* Affairs ministry.

The Spanish Government is consequently seeking strongly increased cooperation between Southern Belt members of the Community, specifically France, Italy and Spain, to frame an EC policy for the area stretching from Libya to Mauritania and encompassing Tunisia, Algeria and Morocco.

For the sake of a closer ties with Spain, King Hassan did not, *during the visit, raise his* historic claims to Ceuta and to *Melilla*, the two Spanish-held enclaves on Morocco's Mediterranean shore.

The monarch also accepted Spain's opposition to Moroccan absorption of the Western Sahara, a former Spanish colony, and Madrid's support for negotiations with the Polisario *Front, the self-determination* organisation that has over the past 15 years been combatting Rabat's annexation of the area.

Spain, however, showed its goodwill to King Hassan in practical, hard cash terms. It has promised a four-year $1.1bn aid package to Morocco and it is actively urging Spanish companies to take up soft loan options and to invest across the Straits of Gibraltar.

By Spanish standards the sum *allocated* to Morocco represents major overseas funding and it comes soon after a $380m a year aid programme to Algeria, again over four years, that was agreed last year.

Spain's growing interest in North Africa surfaced during the first semester of this year when Madrid *held* the presidency of the EC.

In what Spanish diplomats say was the first specific reference to the area in an EC *Heads of Government* document, the Madrid summit last June called for closer ties between the Community and ths Magreb.

During King Hassan's visit to Madrid, Morocco and Spain agreed to hold annual inter-ministerial meetings on a similar basis to the current *two day* Spain-France talks at Valladolid and to a second bilateral session that every year brings Spanish and Italian ministers *together*.

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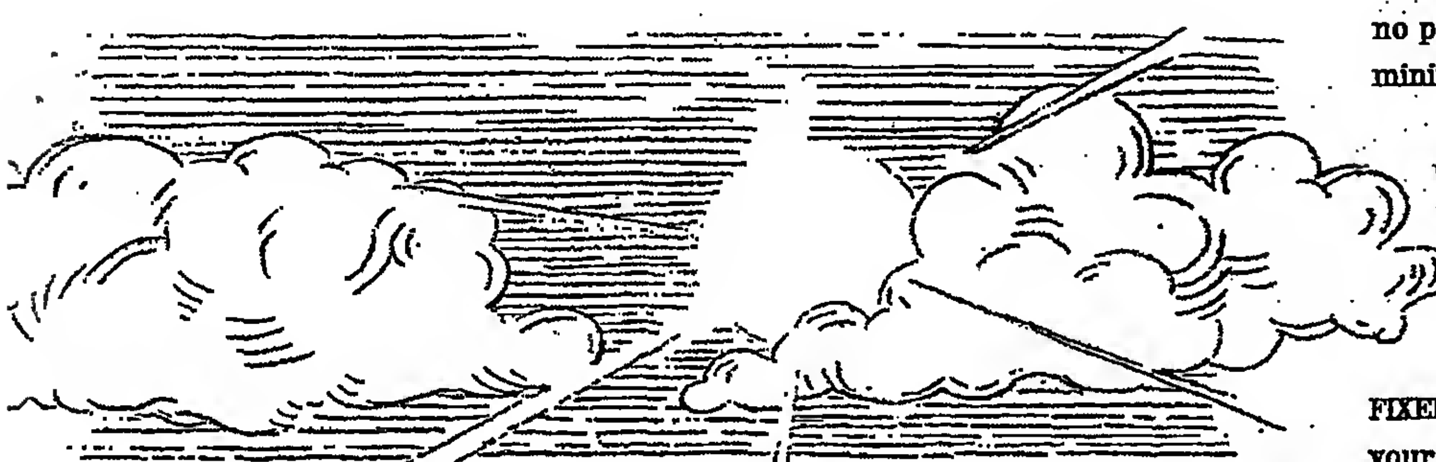

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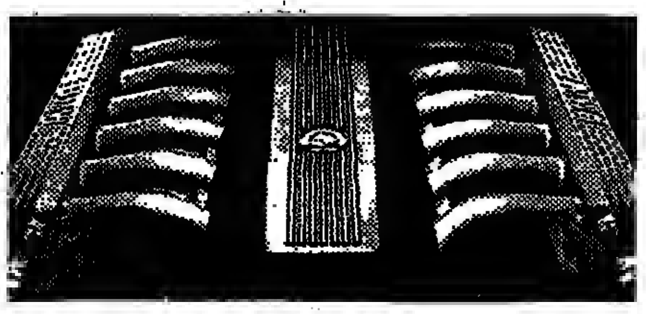
Consider first the unique 12-cylinder engine. The breathtaking power and smooth response delivered by this engine is absolutely fascinating. The 5 litre capacity engine and a maximum torque of 450 Nm provide tremendous acceleration on demand. The practically ideal mass balancing of the engine ensures unusually smooth running. The Digital Motor Electronics are the guarantor of a very high degree of engine efficiency. They control the engine reliably and with extreme precision under all circumstances, contribute to the extremely low pollutant level and make it almost maintenance-free.



■ BMW 12-cylinder engine: 4988 cc, 220 kW/300 bhp, 450 Nm at 4100 rpm. Breathtaking.

Any driver will find the results of the luxury precision swinging arm suspension of the BMW 750i/iL completely convincing. It combines sports car characteristics with supreme comfort.

More important, however, is its high degree of safety. Despite the enormous power of the 12-cylinder engine, it effortlessly provides absolutely secure roadholding.

A few of the exclusive interior features of the BMW 750i/iL give some impression of this unique limousine – fine-grained wooden panelling, high quality leather upholstery throughout with six optional colour tones (750iL), ergonomic rear seat belt system, airbag and special equipment provided for the rear seat passengers, such as bar, colour TV etc. It is difficult to satisfy where only the best is good enough, but it can be done.

BMW

The ultimate driving machine

Troops called in to halt Indian poll riot deaths

By David Housego in New Delhi

INDIA'S general election became embroiled in violence yesterday as troops were called out in Bhagalpur in eastern India to halt rioting between Hindus and Moslems in which 17 people have been killed.

Mr V.P. Singh, the leader of the opposition, immediately blamed the Congress party for the bloodshed, accusing the government party of a "diabolical plot" to fan communal violence in a number of cities. He said Congress's aim was to take advantage of a breakdown in law and order or to postpone the election.

His broadside at a press conference yesterday is a foretaste of the likely bitterness of the campaign. It also reflects the real danger of communal conflict overshadowing the election.

Bhagalpur, which was placed under curfew yesterday, lies on the Ganga river in eastern Bihar. *Like several other* towns where rioting has recently occurred between Muslims and Hindus it has no known record of communal violence.

It lurched onto the front pages of newspapers 15 years ago when police in the town were found to have blinded prisoners awaiting trial by throwing acid in their eyes.

The Congress party spokesman described Mr Singh's charges as "preposterous" and said that the Hindu militant BJP, also a part of the Opposition, had been found to be behind outbreaks of communal violence in other towns. The rioting in Bhagalpur was believed to have begun when large crowds halted a religious procession.

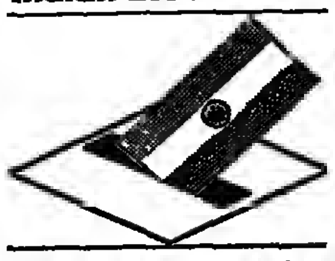
Elsewhere the cause of recent riots has been the controversial processions organised by Hindu fundamentalists to bless bricks being taken to Ayodhya on November 9 to lay the foundations of a Hindu temple near the site of an existing mosque.

Mr Singh's hurried accusations are largely explained by his fear that the seat adjustments he is negotiating with the BJP as part of the campaign to oust Mr Gandhi will lose him the support of Muslims and the secular parties of the Left.

Mr Singh claimed that Congress's plan was to build up communal tensions until a flashpoint was reached at the foundation laying ceremonies at Ayodhya.

He again appealed to Hindu fundamentalists to call off their march.

Indian Elections



Congress supporters attending the party's first election campaign rally in Delhi yesterday

Marxists set sights on balance of power

K.K Sharma reports on the fresh ambitions of an old-style communist party

INDIA'S Marxists are certain they will emerge as the most powerful bloc in the next Parliament after Mr Rajiv Gandhi's ruling Congress-I and the opposition National Front. They expect to win enough seats in the forthcoming general election to have a decisive say in the formation of the next government.

During the campaign, the Marxists are aligning themselves with the National Front, more particularly Mr V.P. Singh's Janata Dal (People's party) which is its most important constituent. Having ruled the states of West Bengal and Kerala for some years, the Marxists want to consolidate their position in their strongholds and also gain from the regional autonomy promised by Mr Singh.

India's Marxists form what is probably the most conservative Communist party in the world, terrified at the prospect of an abandonment of traditional Marxism-Leninism. They consider developments in Hungary and Poland as serious setbacks, even heretical. They are agonisingly questioning and debating – still without accepting – the Soviet reforms.

The Marxists' dilemma arises from the ideological commitments of what are essentially middle-class cadres who are earnest champions of the cause of the working classes.

Basu: Pledge to beat Gandhi

The Communist movement in India has been guided mostly by middle-class intellectuals who, like Mr Jyoti Basu, the Marxist Chief Minister of West Bengal, acquired their doctrines at Western universities.

Because of this, Mr Basu has been able to provide a reasonably efficient and effective government in West Bengal since 1977. His administration, despite serious differences with the central Government, has had little difficulty in functioning within what it believes is a capitalist framework run by right-wing bureaucrats and politicians.

The Marxists have long given up militancy and now frown upon the small factions like the Naxalites, who are spearheading armed struggle in parts of the country. For the present, they are content to work within the system and wait until the party leadership works out its doctrinaire problems and contradictions.

In their election manifesto released yesterday, the Marxists demanded the "defence of national unity against secessionists, communal and divisive forces", K.K. Sharma writes.

They appealed to everyone in India to stop the agitation on the issue of building a temple near a mosque in the state of Uttar Pradesh where Hindus say the god, Ram, was born.

Apart from advocating an extreme left-wing orientation of the country's economic policies, the Marxists focused on communal tensions to test the sentiment of the opposition on this volatile election issue.

The party's first priority is to defeat Mr Gandhi and his Congress which they feel has used government powers to hold back the economic progress of the two states they govern. For political reasons, therefore, they have plumped for Mr Singh, whose party has promised more freedom of action for the states.

Its second priority is to check the upsurge of sectarian forces eager to divide the country along religious lines. In political terms, this means that in the long run the Marxists feel their own future is threatened, not so much by the mainstream political parties as by parties appealing to the religious feelings of the majority Hindus.

To the Marxists, therefore, the Bharatiya Janata Party, which supports the movement for Hindu revivalism, is anathema and they do not want their own electoral partners to be tainted with such contacts.

The Marxists believe they have achieved their purpose. "We are happy that the National Front and the Janata Dal have come out categorically against the planned march to Ayodhya," says Mr Prakash Karat, one of the main Marxist leaders now planning the party's electoral strategy.

The march on November 9, to lay the foundation of a temple on the site near a mosque of what Hindus believe is the birthplace of the god, Ram, threatens to cause a serious outbreak of violence.

Despite hard bargaining now in progress, the Marxists plan to leave the way clear for the National Front in northern India, and even give it some safe seats in West Bengal and Kerala.

The Marxists hope to gain some additional seats in the southern states of Tamil Nadu and Andhra Pradesh due to the disappearance of the sympathy factor Mr Gandhi enjoyed after his mother's assassination.

Together with their left-wing partners, the Marxists themselves expect at least to double their strength from 22 in the present Parliament. If neither the Congress nor the National Front wins a majority, they are certain to be wooed by both for support.

Mr Karat insists the Marxists will not be part of any post-election coalition although the party can be expected to use its strength to extract concessions from the Government, particularly for more favourable treatment to the two states where they are in power.

This is because he is aware that his party cannot, for the present, extend its sway beyond West Bengal and Kerala.

With their regional strongholds, and control over some of the main national trade unions, especially in the steel and coal industries, the Marxists are content for the present to sit out the national contest for power. They know they will emerge stronger on the national scene and hope further to consolidate their present position in West Bengal and Kerala with marginal gains elsewhere.

They know they cannot govern the country but revel in the knowledge that their enemies and electoral partners concede they could be left holding the balance of power.

Double dose of financial gloom for Australia

By Chris Sherwell in Sydney

ANOTHER poor monthly balance of payments figure and confirmation of Australia's reduced credit rating provided a double disappointment yesterday for the country's Labor Government led by Mr Bob Hawke.

Figures from the Bureau of Statistics showed a current account deficit for September of A$1.78bn (£900m).

Prior to last month's unprecedented A$2.51bn this would have been close to record levels. Instead financial markets were relieved because it was better than expected.

The downgrading of Australia's credit rating – to AA from AA+ – came from Standard & Poor's, the US agency, and paralleled a similar decision by Moody's announced in August.

Both have now downgraded Australia twice in three years.

Yesterday's developments suggest that the country's suffocating regime of high interest rates is unlikely to be relaxed until next year.

This will impose added pressure on domestic business and, by underpinning the exchange rate, on exporters.

Reacting to the announcements, Mr Paul Keating, the federal Treasurer, suggested the current account figure was "on track" for a projected decline in the first half of calendar year 1990.

But analysts cautioned against reading too much into one month's figures.

Reaction on the country's financial markets yesterday was mixed.

The downgrading, announced overnight, initially pushed the Australian dollar down, but the currency made up all the lost ground on the back of the current account figures.

On a trade-weighted basis the dollar finished at 59.8 (may 1970=100), up from 58.6. The day market also closed off its low point, with the widely-watched All Ordinaries index ending at 1,633, down 15 points.

Attention turns today to Australia's inflation rate, with the publication of quarterly consumer price-index figures. The current annual rate, at 7.8 per cent, is well above the majority of Australia's trading partners.

The market is also expecting a further rise in the Reserve Bank's discount rate today following the results of yesterday's tender for A$1bn in three-month and six-month Treasury notes.

The rate moved up to 17.7 per cent from 17.6 per cent last week, but analysts expect it to jump to 18 per cent.

More arrests as Peking hardliners widen crackdown

By Peter Ellingsen in Peking

CHINA'S crackdown on liberals has entered a fresh phase that has seen the arrest of more intellectuals and an apparent ban on social contact between officials and foreign diplomats.

But ahead of a plenary session of the Communist Party's central committee, hardliners seem unlikely to achieve their goal of putting former Party boss, Zhao Ziyang, on trial. He may well be further disciplined but is unlikely to be jailed.

This course of events will be a blow to hardliners, led by Premier, Li Peng, who blame Zhao for the uprising, and for China's serious economic difficulties. In other spheres, however, Li's get-tough line has prevailed, as evidenced this week by renewed purges in the country's larger cities. Police have been daily carrying out a new wave of arrests in Peking and Shanghai.

Among those detained is prominent author and social critic, Wang Ruowang, 72, who will reportedly be put on trial for allegedly supporting the pro-democracy movement earlier this year. No dissident has been publicly tried since the army moved against demonstrators on June 3, but with China's leading dissident, Professor Fang Lizhi, out of reach inside the US Embassy, Wang, who openly advocates a "humanist" reform of Marxism is likely to be the first.

Diplomats say the harsher line has also meant a virtual ban on social contact between Western envoys and officials.

They say a directive has been issued by the State Council, headed by Li, warning officials below the level of vice-minister, against accepting dinner, or social invitations from foreign embassies. The move suggests an isolationist stance not witnessed since paramount leader, Deng Xiaoping's, reforms got under way nine years ago.

There appears to be a virtual ban on contacts between Western envoys and Chinese officials

In what is seen as a further move to tighten Government control, the standing committee of China's Parliament, the National Peoples' Congress, yesterday began a meeting to review laws relating to demonstrations.

According to spokesman, Zhang Hasheng, the meeting will also consider appointments and sackings, but not of senior leaders, such as Zhao. It is expected the NPC will implement rigid new regulations governing street meetings, and recommend the removal of delegates thought to be soft on Communist orthodoxy. The delegates are also expected to implement tougher directives for urban neighbourhood committees the party's grassroots means of effecting discipline and political supervision.

Zimbabwe Government suffers court setbacks

By Julian Borger in Harare

ZIMBABWEAN courts have this week issued a series of rebuffs to the Government in its growing confrontation between the state and the judiciary.

The High Court in Harare yesterday overturned a ministerial order denying bail to 15 students charged with publishing a subversive document and participation in campus riots. The order was issued last week by Mr Moven Mahachi, the Home Affairs Minister. This view was rejected. Bail for the students was set at Z$150 (£45) each and costs were awarded against the Minister.

Also freed on orders from the High Court were three members of the Zimbabwe Unity Movement (ZUM). The three were the last of 11 ZUM members picked up while working on their party's campaign for the Kariba by-election in northern Zimbabwe, on grounds of alleged subversion. ZUM officials complained that the detentions handicapped their election effort, but they are now ironically left with a strong chance after the Supreme Court on Monday disqualified the candidate of the ruling ZANU-PF party as his nomination had not been submitted in time.

The High Court has also intervened twice to free Morgan Tsvangirai, the general secretary of the Zimbabwean Congress of Trade Unions, who has been held for 20 days under the state's wide-ranging emergency powers, only to see the union leader promptly re-detained each time.

Mr Tsvangirai was charged last week with being a South African agent, after initial charges of publishing a subversive document were overturned by the courts.

Pakistani premier faces battle for her political life

By Christina Lamb

MS Benazir Bhutto's government was engaged in frantic negotiations last night to save itself from a no-confidence vote expected on Sunday as fears grew that a general election may have to be called.

Yesterday she dismissed one of her ministers Mr Tariq Magsi on television, after he apparently demanded R20m and a licence to set up a bank to carry on supporting her. According to Mr Hussain Haqqani, the opposition spokesman, Mr Magsi had already switched sides along with 12 other deputies from Ms Bhutto's Pakistan People's Party(PPP).

Ms Bhutto's 10 months in office have been clouded with domestic problems. Her only coalition partners have deserted her and independent members of Parliament are being offered as much as R10m and five jeeps each to join the opposition Islamic Democratic Alliance(IDA) in the vote.

Ms Bhutto's difficulties stem from last November's elections - the first in 11 years in which no party got a majority. Her party emerged as the largest and, after frantic horsetrading, secured the support of tribals from the Frontier province and the Karachi based Mohajir Quami Movement (MQM), the third largest party which represents migrants from India.

She was left in the unsatisfactory position of being Prime Minister but with an assembly majority seemingly too fragile to pass legislation.

Most galling of all, control of the government of Punjab, the largest province, went to her archrival Mr Nawaz Sharif, head of the opposition Islamic Democratic Alliance and protege of President Zia-ul Haq.

Ms Bhutto has needlessly antagonised the king of bureaucrats, President Ghulam Ishaq Khan, who rose from clerk to being the country's top executive. Though it was Mr Ishaq who nominated her Prime Minister, she has never treated him and, spurred on by enthusiastic but inexperienced ministers, she has made clumsy attempts to curtail his powers. The two have barely spoken for three months.

The President is thought to have given his blessing to the opposition move to oust Ms Bhutto, which Mr Tariq Rahim, Minister for Parliamentary Affairs, admits came as a shock. Pakistan's politicians are pragmatic rather than ideological and no doubt some of the 129 of the 237 assembly members the IDA claims are backing it have pledged support to both sides, waiting to see who is likely to win out.

The PPP is now desperately trying to win back support but even if they succeed there may have to be new elections. Mr Rahim admits the vote will be close. The biggest worry is that the troubled province of Sindh may erupt.

If the opposition succeeds in removing Ms Bhutto it is unlikely to be able to form a stable government there being too many contradictions between the 11 groups, although they have agreed on Mr Ghulam Mustafa Jatoi, a former PPP leader as their candidate for Premier. The fear as ever in Pakistan which has spent more than a quarter of its lifetime under military rule, is that it could spark off another period of martial law.

Iran lauds self-help ethic in reconstruction

Victor Mallet reports from Abadan on the rebuilding of the shattered oil industry

THE MESSAGE from Iran's Abadan refinery seemed clear. "Down *with England*," said a notice in the canteen, signed by the refinery's undiplomatic public relations department.

"Down with USA," said another notice in the control room. There was even a half-hearted demonstration for the visiting journalists by boiler-suited workmen chanting: "Death to Israel, Death to America."

Iranian leaders have gone to great lengths to show how little Iran depends on the rest of the world for the reconstruction of its vital oil industry after the Gulf War with Iraq, and here, apparently, was the proof.

The wrecked refinery at Abadan in southern Iran – which was established by the British at the beginning of the century and later became the world's largest – is working again.

It was destroyed by Iraqi artillery in the early days of the war in 1980. Crumpled storage tanks, shell-holed, shrapnel-marked and fire damaged bear witness to the fierceness of the shelling. There were 500 casualties among the workers.

After a five-month crash programme of "cannibalisation" and rebuilding part of the refinery is functioning.

Iranian engineers say it is now treating 130,000 barrels a day, compared to 630,000 b/d before the war.

There are plans to increase throughput to 380,000 b/d within two years. "Iranians did this and we are very proud of ourselves," said a beaming Mr Farzad Ovaici, the general manager.

Proud refusal of foreign involvement will make it a slow and difficult process

Reconstruction in Iran, however, has only just begun. According to businessmen and diplomats in Tehran the proud refusal of foreign involvement and the confusion in the Government's economic policies will make it a slow and difficult process, however much workers are inspired by the pictures of the late Ayatollah Khomeini taped between the dials on their control panels.

As he spoke, Mr Ovaici was standing a mere 300 metres from the Iraqi frontline on the other side of the disputed Shatt al-Arab waterway. Like his Iraqi counterpart he emphasised that reconstruction meant a desire for peace. "We are working and that shows we don't want war," he said.

But the half-a-million inhabitants of the nearby town have only recently been allowed to return to their homes to salvage what they can, and the present population is estimated at 20,000.

Most shops are deserted, and old shell casings are used as traffic cones at the approach to army roadblocks.

More serious for the future of the economy is the national shortage of skills and equipment.

Even if it is true that Iranian technicians can handle the revival of the oil industry on their own, these same technicians are worried by the lack of good management, a problem exacerbated by the post-revolutionary purges of previous years.

There is a visible struggle for control on the shopfloor between clean-shaven technicians and bearded youths with acceptable Islamic credentials who act as "security men". Nobody denies that Iran needs to import sophisticated equipment for the oil, gas and petrochemical industries, but there is disagreement about how efficiently large industrial complexes will operate under all-Iranian management and about whether they will be able to compete on international markets. There has obviously been some progress since the ceasefire in August last year, and Iran claims an oil production capacity of 3.5m b/d, more than its 2.9m b/d Opec quota.

But deal has been struck with Soviets for exploration in the Caspian Sea

The $500m Marun gas injection station, designed to boost pressure and oil output from the Marun field, began operating this year more than a decade after its inception before the revolution.

"This was a big goal for us, to complete this complicated job with our own people," said Mr Mondani Mahmoudi, one of the production staff. The nearby Razi chemical plant suffered 65 per cent damage from Iraqi air attacks but has since been largely restored.

Iran has struck a deal with the *Soviet Union* on oil exploration in the Caspian Sea, but is otherwise wary of foreign participation.

Yesterday Mr Gholamreza Aqazadeh, the Iranian Oil Minister, told a news conference that Iran needed no foreign investment for oil, but was happy to accept investment in future liquefied natural gas projects.

"In the next five years we attach great significance to the expansion of our petrochemical and gas industries," he said.

Confusion in the Iranian leadership about the difference between foreign investors and foreign contractors, and the Government's unwillingness to borrow abroad, are both likely to keep the pace of reconstruction slow.

As Ayatollah Khomeini said in 1979: "Some people have come to me and said that now the revolution is over we must preserve our economic infrastructure. But our people rose for Islam, not for economic infrastructure."

Plastic flowers symbolise a fragile Arab friendship

Tony Walker on Egyptian-Libyan relations

IT is perhaps hard to believe that plastic flowers would have become the symbol of an old-new friendship, but on the streets of Marsa Matruh near *Egypt's* border with Libya artificial flowers are the hottest item in town.

"We want to take flowers because we are so happy, and flowers are the symbol of happiness," said Fawzia, a Libyan shopper among many thousands who have streamed across the border since relations between the former belligerents improved earlier this year.

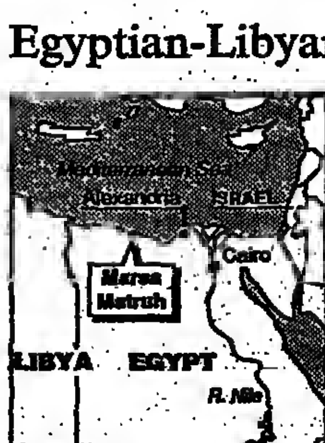
When Colonel Muammar Gadaffi of Libya rolled into this seedy Mediterranean resort town this month in a gleaming white Cadillac he brought with him the hopes of a vast number of Libyans for better relations with their neighbour.

Bedouin families, who had been estranged for 16 years since the border was closed under the late Egyptian President, Anwar Sadat, were reunited. Thousands of Egyptian women married to Libyans were among the first to make the crossing at the border town of Saloum.

The Libyans came in buses, in private cars and in taxis to Marsa Matruh, and then travelled on to Alexandria to fulfil the dreams of lost years. They returned to Libya so laden down with household goods that their vehicles were almost scraping along the road.

Shopkeepers in Marsa Matruh can't believe their luck. Mr Eid Abdel Halim Saad, who was selling artificial flowers on the pavement, reckons business has increased by at least 75 per cent. Along with other vendors he has resisted the temptation to increase prices. "We did not increase prices," he said, "because we are one family and we cannot exploit each other."

General Kamal Mansour, the local Governor, whose vast territory stretches from the Libyan border east towards Alexandria along the shores of the Mediterranean, and down into the desert oases of the New Valley, said that Libya and Egypt were "building a new relationship" that was "more solid" than the previous one.



When President Hosni Mubarak of Egypt and Col Gadaffi met, first in Marsa Matruh, and then in Tobruk across the border in Libya, they agreed on a new framework for economic and technical co-operation aimed at drawing the neighbours closer together in almost every way.

Among the agreements were:

- That Egypt and Libya would connect their electricity grids as part of a drive by the Egyptians to create an Arab and African electricity network, eventually linked to Europe.
- Priority would be given to providing direct telecommunications links.
- Railway lines would be joined at the border to facilitate trade.
- The neighbours would engage in joint agricultural and water conservation projects (The two sides are understood to be looking at the possibility of exploiting underground water resources).
- Libya and Egypt would consider joint fisheries projects.
- The road to the border would be turned into a two-lane highway to further encourage road transport.
- The two sides would also look at joint petroleum exploration along the border. Gen Mansour would be the first to admit that after years of estrangement building a new relationship will not be easy. Discussions, he says, are still at a very preliminary stage, but he adds: "We are going to complement our economies."

Trade, even in the days before Mr Sadat and Col Gadaffi fell out, was relatively small. It was confined mostly to consumer items ... and Egyptian wives, much prized in Libya.

There is no talk now of a trading bonanza in official Egyptian circles, although there is considerable interest in the possibility of exporting Egypt's surplus labour to Libya.

More than 200,000 Egyptians were estimated to have been working in the Jamahiriya, or "State of the Masses", before Col Gadaffi expelled most of them in the mid-1980s. Disputes over severance pay continue, and the Egyptians hope the new spirit of cross-border co-operation will help to resolve these issues. But there are few illusions in Cairo.

Libya's bitter opposition to Egypt's peace with Israel is, it seems, undimmed, although the issue has been put aside ... for the time being.

Egypt is proceeding cautiously, and with scepticism. The brief border conflict of 1977, attempts by Libyan assassins to eliminate Col Gadaffi's political enemies who had taken refuge in Cairo, and years of Libyan insults and threats are still fresh in the minds of Egyptian officials.

On the streets of Marsa Matruh, there is also a leavening of realism behind all the euphoria. Asked whether all this would last, a Libyan, who was piling goods on top of his car, replied: "God knows."

AMERICAN NEWS

SEC chief hails efficacy of post-crash reforms

By **Janet Bush** in Washington

THE EXTREME volatility and high volume on the Stock Market on October 13 and 16 proved the value of market reforms implemented after the crash two years ago, according to Mr Richard Breeden, new chairman of the Securities and Exchange Commission.

Mr Breeden, who started his new job only two days before the Dow Jones Industrial Average fell 190 points, the second-largest points decline in history, was appearing for the first time before Congress.

In testimony before the telecommunications and finance sub-committee, which oversees the SEC, Mr Breeden said that circuit breakers – brief trading halts implemented at various trigger points – had worked without operational difficulty.

"The volume surges and volatility experienced on those two days exemplify fundamental changes in our markets; they were not isolated incidents," Mr Breeden said. "We should not panic in the face of these events. For what was demonstrated on October 13 and 16 was the strength and resiliency of the nation's markets."

He said communication between the markets was excellent, with an emergency tele-conference facility informing each market of the implementation of circuit breakers.

Increased computer capacity brought on line by the exchanges since the 1987 crash had meant that the surge in volume had been handled well, and there were no queues of orders in the system.

Events in the stock market in the last two weeks dominated yesterday's session, which was scheduled to discuss the sub-committee's proposed Stock Market Reform Act, introduced at the request of Mr David Ruder, Mr Breeden's predecessor.

One of the Act's provisions would ensure the SEC timely and accurate information on large trades, as well as on broker-dealer holding companies which issue bridge loans.

Mr Breeden said this information would have been useful during the weekend after the decline on October 13, in the wake of the collapse of financing for the United Airlines buy-out. He said that he would have liked to know more about the level of bridge loan exposure of the major securities houses and so assess any potential distress.

Mr Breeden made it clear that he did not agree with another provision in the Act which would give the SEC authority to halt trading on the Stock Market without permission from the President.

S Korea agrees to buy 120 US jet fighters

By **Lionel Barber** in Washington

SOUTH KOREA has agreed to buy 120 US jet fighters in a $2bn deal, the terms of which are certain to stir controversy in the US Congress.

Under the agreement, South Korea, which has a large trade surplus with the US, will buy only 12 fully-built fighters direct from the US. The parts for 36 other jet fighters – either F-16s built by General Dynamics or F-18s built by McDonnell Douglas – are to be imported for assembly, while 72 are to be built under licence from the US manufacturers.

Efforts by some members of the Bush administration, notably Mr Richard Cheney, US Defence Secretary, to negotiate a direct sale appear to have foundered. One reason is that the aircraft sales should permit Korea to modernise its armed forces, which in turn may allow the US to withdraw some of its 43,000-strong troop presence there.

On Capitol Hill, the jet sale has been dubbed "the Korean FSX," a reference to the joint US-Japanese development of a new jet fighter which involved transfer of American technology to Japan. The deal was opposed by many in Congress who, allied with some nationalist-minded administration officials, persuaded President George Bush to stiffen some of its provisions on technology transfer.

Bush relaxed over German reunification

PRESIDENT George Bush has said he does not share the anxiety of some European countries about a reunified Germany because of the West German commitment to the western alliance, Peter Riddell reports from Washington.

His comments follow a telephone conversation on Monday with Chancellor Helmut Kohl of West Germany. According to the White House, they discussed events in Germany after the resignation of Mr Erich Honecker and the selection of Mr Egon Krenz as the new East German leader.

The US message, as set out yesterday by Mr Bush and earlier by Mr James Baker, the Secretary of State, has been of support for eventual German reunification, or reconciliation, but without a formal timetable and on the basis of western values, linked to European integration.

The Bush administration has been keen to send out reassuring signals about recent events to Germany.

The President and his advisers want to be positive about the goal of reunification, not least so as to help Chancellor Kohl ahead of West Germany's elections next year, while at the same time not alarming other European countries, and particularly the Soviet Union.

Mr Baker said after his meeting in Wyoming five weeks ago with Mr Eduard Shevardnadze, the Soviet Foreign Minister, that they had talked about problems of East German migration and discussed "the German question." But he declined to go into details.

Mr Bush said yesterday in an interview with the New York Times that he could see changes in the status of Germany.

"I don't share the concern that some European countries have about a reunified Germany because I think Germany's commitment to and recognition of the importance of the alliance is unshakeable."

Mr Bush added that the US should not be out "pushing the concept of reunification, or setting timetables, or coming from across the Atlantic making a lot of new pronouncements on this subject. It takes time. It takes a prudent evolution. It takes understanding between the French and the Germans and the Brits and the Germans on all of this."

Israel moves to soothe Baker's brow

The US is playing a subtle Middle East hand, reports **Lionel Barber**

TO judge by the amount of time Mr James Baker has been spending on the telephone to the Middle East in the last two weeks, US efforts to promote talks between Israel and Palestinians have reached an intriguing juncture.

Mr Baker, US Secretary of State, has been signalling increasing exasperation with Israel's stonewalling over its own plan for elections in the occupied territories. Under pressure from Washington, Israeli leaders are making efforts to mollify him.

On Monday night, Mr Moshe Arens, Israeli Foreign Minister, sent Mr Baker a letter informing him that Israel would accept a US proposal designed to lead to talks with Palestinians on elections, with two reservations.

The first is that Mr Baker offers assurances that the talks will not include the Palestine Liberation Organisation. The other is that the agenda for a future Israeli meeting with Palestinians would be confined to arrangements for the Israeli-proposed elections in the West Bank and Gaza.

The US response was guarded. "The gentlemen are still trying to bridge the gaps and come to closure," said Ms Margaret Tutwiler, the State Department spokeswoman and Baker confidante.

Since the beginning of this month, Israel's coalition government has rebuffed efforts by both President Hosni Mubarak of Egypt and Mr Baker to build on the election plan originally proposed by Mr Yitzhak Shamir, the Israeli Prime Minister, last May. Mr Baker has now given vent to his frustration by threatening to drop his mediation effort.

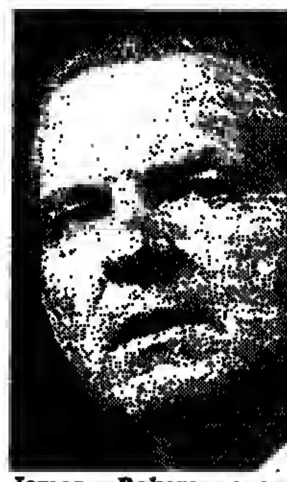
In the past, US efforts to publicly strong-arm Israel and the hard-line Mr Shamir have usually ended up with the Americans on the mat. Last summer, when he questioned Mr Shamir's commitment to his own peace plan, Mr Baker raised the threat of the US accepting an international peace conference on the Middle East. Within days there was uproar in Israel, quesiness in Washington, and President George Bush quashed the idea.

This time, Mr Baker and Mr Dennis Ross, his top adviser, are playing a more subtle hand. With Mr Shamir due to visit Washington next month, they have instructed the State Department to relay the message to anyone who will listen: if there is a stalemate, then Mr Shamir, the sponsor of the election plan, will be to blame.

The White House, meanwhile, has been signalling that without Israeli movement, Mr Bush might not find the time to receive Mr Shamir. This may have prompted the Arens letter to Mr Baker.

The current round of Middle East peace diplomacy began 10 months ago when the outgoing Reagan administration opened its dialogue with the PLO – a move which prodded the Israeli government into coming up with its election plan for the West Bank and Gaza.

A common theme has emerged. No party has been willing to go the extra mile to make a breakthrough possible, but no party has been willing to reject outright US efforts to bring about talks between Palestinians and Israelis.



James Baker: growing frustration with Israel

Dr Barry Rubin, an expert at the Washington Institute for Near East policy, believes the Arens letter is a positive step, but no more than that. An adventurous US response would be for President Bush to offer to chair a meeting in Washington between Mr Shamir and President Mubarak (who has come up his own 10-point refinement of the Israeli election plan and received a warm reception at the White House and Capitol Hill earlier this month).

Dr Rubin believes such an idea would be favoured by the Israeli Labour party, some moderate Palestinians and President Mubarak. It would, he says, be a natural extension of the current Baker proposal for talks between the Israeli and Egyptian foreign ministers in Washington, prior to a Palestinian-Israeli dialogue.

It might prove enticing to Mr Shamir who is said to covet recognition from his Egyptian counterpart. It might in turn draw at least tacit approval from the PLO. The guerrilla movement last week reiterated its insistence that it be directly involved in peace moves, but Mr Yassir Arafat, the PLO leader, has also been in Cairo this week indicating his interest in keeping Mr Baker's efforts alive.

Yet such a high-profile intervention would represent a gamble by the ultra-cautious Mr Bush. The problem is setting on an agenda acceptable to the Egyptians and the Israelis. Differences centre not only on the ground-rules for the proposed election in the occupied territories, but also on the composition of the Palestinian delegation to hold talks with the Israelis.

Mr Shamir continues to rule out any suggestion of any dialogue with the PLO – and harbours doubts about an Egyptian mediating role.

It is questionable whether US threats of "walking away" are really credible. The US gives more than $3bn of aid to Israel every year; it remains committed to its strategic relationship; and there is no suggestion of any policy to penalise Israel for its recalcitrance, such is the bedrock of support on aid in Congress. But talk of diplomatic withdrawal is a measure of the rising frustration in Washington – even after the latest Israeli move.

Greenspan sees zero inflation as attainable in five years

By **Peter Riddell**, US Editor, in Washington

A FIVE-YEAR deadline for the elimination of inflation in the US is attainable, though in the transition period growth could be reduced for a while, Mr Alan Greenspan, the chairman of the Federal Reserve, argued yesterday.

He was testifying before the House domestic monetary policy subcommittee about proposals to establish zero inflation as a statutory goal and to make the Fed more accountable for its actions.

Mr Greenspan thought inflation could be "brought down to levels which are closer to zero without putting the economy into recession, though I suspect there might be some modest loss of economic growth, than would otherwise have been the case." He described the current inflation rate of around 4.5 per cent as "much too high to be ignored."

Accepting the transitional costs of eliminating inflation, he argued that "over the long-term, achieving the goal would result in a stronger economy and it is therefore an appropriate objective for the central bank."

Discussing the possible short-term costs, Mr Greenspan noted both that protectionism and the size of the Federal deficit could affect the path to price stability. "The degree of monetary policy restraint implicitly mandated by the five-year deadline would be lessened by better balance in the federal government's accounts."

Initial progress towards the zero inflation goal would, he said, be impeded by the strength of current inflation expectations. "At the moment, after seven years of inflation trending around a 4 per cent annual rate, individuals, businesses and financial markets, appear to believe with some conviction that inflation is likely to remain in this vicinity."

He said the proposal was desirable in part because it directed monetary policy towards the single goal of prince stability, in contrast with current legislative directions which set out multiple objectives for policy that have not always been entirely consistent in the short-term.

However, Mr Greenspan strongly opposed proposals by Congressmen Lee Hamilton and Byron Dorgan which would affect the Fed's current independence. In particular, he resisted the call for immediate disclosure of all monetary policy actions.

He argued that this "could significantly reduce the effectiveness of our policy." Immediate disclosure would "take a valuable policy instrument away from us. It would reduce our flexibility to implement decisions quietly at times to achieve a desired effect while minimising possible financial market disruptions."

Mr Greenspan also rejected suggestions that the Fed chairman's four-year term should be linked to a presidential term, to subject the Fed to an audit by the General Accounting Office, integrate the Fed's budget with that of the Federal Government, and require formal consultation twice a year with the top economic officials in the administration.

House abortion override fails

The US House of Representatives failed yesterday to override President Bush's veto of a bill expanding Federal funding of abortions in cases of rape and incest, despite a further shift by members towards more liberal measures, **Lionel Barber reports** from Washington.

The House voted 231-191 in favour of an override, short of the two-thirds majority needed. The President's veto must stand, as it can only be overruled by both the Senate and the House. Abortion rights supporters picked up 15 more votes yesterday compared to a vote two weeks ago.

WORLD TRADE NEWS

UK urges piecemeal approach to export credits harmony

By **Peter Montagnon**, World Trade Editor

BRITAIN'S Export Credits Guarantee Department has proposed to its European Community counterparts that they undertake a piecemeal approach to harmonising their policies on export credits, Mr Malcolm Stephens, Chief Executive, said in London yesterday.

Speaking after a parliamentary committee hearing into ECGD, Mr Stephens said the idea of the initiative, in response to pressures for greater conformity in approach, in the light of the 1992 single European market, was to concentrate on harmonising first those aspects of the business where agreement on common standards was relatively easy.

An example was the waiting-time between a default on an export credit and the actual payment of a claim, he said.

It would be much easier to standardise practice in this kind of area than introduce common premium levels and cover availability, which would inevitably intrude on the rights of individual member-states to determine their own national policy on export credits. These problems would have to be left until much later.

Mr Stephens said he had received no immediate response from other European export credit agencies which were still considering the idea.

European export credit agencies are still awaiting proposals from the Commission in Brussels on how export credits should be treated after 1992. The advent of the single market has raised competition policy problems on which the Commission had been expected to pronounce this autumn.

Among them are the questions of whether it is in keeping with the single market to permit a wide discrepancy in the availability and the price of cover for firms operating in different member-states.

Separately, Lord Trefgarne, UK Trade Minister, told the hearing of the Commons Trade and Industry Committee he was against the idea of a pan-European export credit agency.

Parliament, Page 10

S. Korea wins support against Gatt ruling

By **Maggie Ford** in Seoul

SOUTH KOREA is gathering support from developing countries in its efforts to avoid opening its market to beef imports under a ruling from a panel of the General Agreement on Tariffs and Trade (Gatt).

The panel is due to rule shortly on the country's graduation under Article 18, which allows a country to deficit on the balance of payments to protect its markets. South Korea has had a current account surplus for three years.

Mr Hong Soon Young, assistant Foreign Minister, said yesterday that Seoul had already agreed that it could no longer ask for protection on this basis. But Seoul needed a grace period before the market for agricultural products was fully opened, he said.

As South Korea was the first developing country to graduate under the Gatt, many other nations were interested in the precedent, he said, and Seoul believed that its demands were receiving support.

South Korea has asked for a ten year grace period, offering a series of graduated liberalisation plans over the period.

About 20 per cent of the population is involved in farming, down from 40 per cent a decade ago, but the farmers' plight has received strong political suport from Opposition leaders, students and the public.

The Government has been strongly attacked for giving to to US demands for market opening and a number of major demonstrations have been held this year in protest.

The resistance to beef imports has created a major trade row with the US, which wants South Korea to open fully its beef market over a much shorter period.

Motorola to share in IBM chip research

By **Louise Kehoe** in East Fishkill, New York State

INTERNATIONAL Business Machines announced yesterday that Motorola, the largest US merchant semiconductor chip manufacturer, will participate in research efforts aimed at developing semiconductor production technology for use at the turn of the century.

Motorola is the first company to accept IBM's invitations, issued over the past year, to share in the use of IBM's new $1bn synchrotron X-ray lithography facility.

The advanced semiconductor research centre housing this equipment was officially opened in East Fishkill yesterday.

At the ceremony, Mr Robert Mosbacher, US Commerce Secretary, applauded IBM investment to "the future competitiveness of the US semiconductor industry.

"The commercial stakes are very high in the continuing struggle for world leadership to semiconductors," Mr Mosbacher said. He welcomed IBM's willingness to help to bolster a strategic sector of the US economy.

IBM's X-ray facility is the first privately-owned synchrotron of its type in the US. "There are at least 15 of these facilities in Japan," said Dr Jack Kuehler, IBM president.

"We wish the US semiconductor industry was moving faster on this technology. We believe that currently, we are at parity with the leading Japanese chip makers.

"This new facility should enable us to achieve a leadership position, and it will be very important for us to do that."

A healthy US semiconductor sector fortified the US electronics industry, enhancing its ability to compete in the global marketplace, Dr Kuehler added.

Co-operation in X-ray lithography was critical because of the high capital cost associated with the new technology.

IBM intends to work closely with Sematech, the government-funded semiconductor manufacturing technology consortium, as well as with individual semiconductor producers and the US Government in developing this technology.

West German shipyards see the silver lining

As a painful restructuring ends, orders have been flowing in, **Andrew Fisher** writes

IT IS the sort of language not normally heard in shipbuilding, an industry heavily battered since the mid-1970s. But after years of sinking order books, falling prices, and job cuts, West German shipyard executives are gingerly starting to talk of "light at the end of the tunnel", "cloud with a silver lining", or "land in sight".

As German yards have ended a time of painful restructuring, orders have been coming in steadily. Recent forecasts have suggested an uplift in world demand for new ships as world trade expands. Prices have been edging up in dollar terms as over-capacity has been cut.

The latest contracts to reinforce the industry's cautious optimism have come from the Soviet Union, which has ordered six container ships and taken options on four more, totalling DM1.2bn (£400m). They will be built at two of Germany's biggest yards, Bremer Vulkan and Howaldtswerke-Deutsche Werft (HDW), both of which hope to share in a further DM3bn or so of Soviet orders for multi-purpose cargo vessels.

"The co-operation between the two yards was very important," says Mr Klaus Neitzke, chief executive of Kiel-based HDW, part of the state-owned Salzgitter group. Referring to past capacity cuts to slash costs and raise efficiency, he adds: "Neither yard could have accepted these orders on its own". Both he and Mr Friedrich Hennemann, head of Bremer Vulkan, are confident that the options will be exercised.

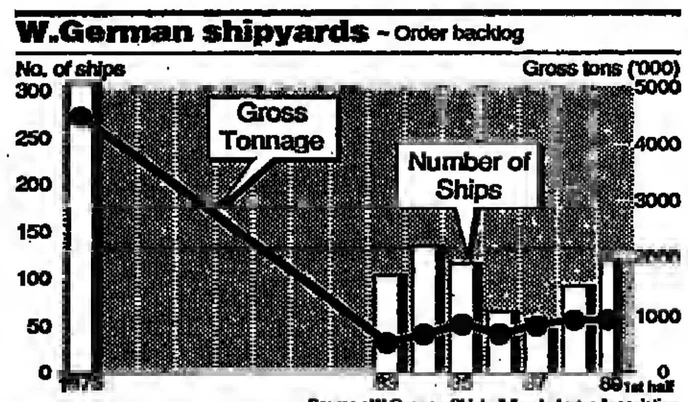
With the new Soviet orders, HDW, which is also building vessels for China and Israel, and Bremer Vulkan have enough work for at least the next two years. By co-operating, they were able to promise the Soviet Union quick delivery dates. But their present workloads, though welcome, are way below those of the past decade.

In 1975, the merchant ship order backlog at German yards totalled nearly 4.5m gross tons, or 307 ships. Since then, capacity has been slashed – the industry employs 34,000 people against 75,000 10 years ago – as European yards have struggled against cheaper Far Eastern competition. After a slide to 580,000 tons in 1985, business-on-hand has picked up to 937,000 tons (118 ships).

"We are more optimistic now," says Mr Hennemann. But "there will only be a real market recovery if the Japanese don't increase their capacity again."

Although dwarfed by the industries in Japan, accounting for 37 per cent of last year's merchant ship completions, and South Korea (29 per cent), German yards occupy the number three position in world shipbuilding with a 5 per cent share, ahead of Taiwan and Denmark.

"If we can keep this position, we shall be happy," comments Mr Neitzke. Like Mr Hennemann, he has strong feelings about the way the Japanese have come to dominate the industry by rapid expansion and fierce price competition since the 1960s.



Source: W.German Shipbuilding Industry Association

As first Japan and then Korea took over large slices of the market, yards elsewhere had to take drastic measures. Employment at HDW has fallen from 19,500 20 years ago to 4,500 today. Further cuts would bring the industry below the minimum size needed to survive. "We don't think we should go below the present level," asserts Mr Werner Fante, general manager of the West German Shipbuilding Association.

Roughly 60 per cent of the German industry is now grouped to three units centred on the yards of Bremer Vulkan, HDW, and Blohm-Voss, the Hamburg yard which has won an Australian contract to help build eight frigates.

To stay competitive during restructuring, the German shipyards have invested heavily. Bremer Vulkan has a three-year investment programme totalling DM200m, while HDW, which also has a sizeable export and domestic naval shipbuilding business, has spent DM100m on both a new submarine building facility and an administration complex.

However hard German and other non-Asian yards strive to keep up, the price gap with Japan and Korea remains. in line with EC guidelines, Germany provides subsidies to help narrow the difference.

Without the EC Commission's decision three years ago to support what was left of the European industry, the German yards would not have been in a position to win orders such as those from the Soviet Union.

Japanese and Korean yards were also keen to win the Soviet container ship contracts. "We showed we can be competitive," said Mr Hennemann. "The EC's policy has given us a chance to show we can compete internationally." The German yards have included an element of subsidy in their calculations for the Soviet order, though talks with the Government on topping up the sum available are still continuing.

Looking to the possibility of further Soviet business, Mr Neitzke says much depends on how quickly the 46 multi-purpose vessels under discussion are delivered. Both HDW and Bremer Vulkan are interested, but have to deliver the 10 container ships by mid-1993.

Thus, German yards might team up with others in, say, Spain, Greece, or Portugal, to bid for the other DM3bn- worth of orders. With some DM1.7bn-worth of orders on its books, HDW is currently in reasonable shape. But competition for new business will remain tough. That is why neither Mr Neitzke nor Mr Hennemann are prepared to be too euphoric about the Soviet orders. Keeping their yards filled will remain a challenge, even if the hoped-for upturn in worldwide ordering does occur in the 1990s.

Foreign cars on centre stage at Tokyo show

FOR foreign car makers to be given centre-stage positions at Tokyo's biennial motor show, which opens tomorrow, is a measure of the anxiety the Japanese motor industry feels about the rise of protectionist sentiment in the US and Europe, **Ian Rodger reports** from Tokyo.

At previous shows, the few foreign companies that did exhibit were relegated to a different exhibition hall from the big Japanese producers.

This year, Fiat of Italy is showing its Tipo across from the Nissan Motor stand and Britain's Range Rover, finally introduced to the Japanese market, sits on a pedestal overlooking the Toyota Motor stand.

Continuation of this egalitarian arrangement may be in doubt, however, after a minor incident yesterday. A press briefing by Honda's president, Mr Tadashi Kume, was interrupted by a loud bang and clouds of smoke from the Porsche exhibit as the West German company unveiled its Panamericana model. Mr Kume scowled, then continued with his speech.

In any event, Japanese motor industry leaders are concerned about the increasing talk of reciprocity in international motor trade.

The Japan Automobile Manufacturers Association (JAMA) has issued a booklet explaining efforts to remove substantial non-tariff barriers long frustrating importers to Japan.

There was now even some positive discrimination for imports, it explained, urging foreign companies to come. "The outlook for imported cars to Japan is good. It will continue to get better."

Foreign car makers have got the message. Together, they occupy nearly 40 per cent of the 137,000 squ ft at the show, prompting a Nissan official to grumble: "We are never allowed that much space at shows in Europe".

For the first time, a South Korean company, Hyundai Motor, is exhibiting, with a Soviet company, Autoexport, there for the first time in 25 years.

Even the big three US manufacturers, who have made only token efforts in Japan up to now, are showing several models. "General Motors is committed to Japan," Mr James Steinhagen, director of North American vehicle sales for GMOC-Japan, said.

Mr Carl Hahn, chairman of West Germany's Volkswagen, said the company would achieve annual sales of 100,000 in Japan by the mid-1990s – double its current sales and more than the total of all imports two years ago.

Mr Donald Petersen, chairman of Ford Motor, announced formation of an Asia/Pacific operations centre in Tokyo, explaining that "60 per cent of the automotive growth during the next 20 years is expected to be in markets where Ford has little or no manufacturing presence today".

CoCom seeks to solve sales split

Representatives of the 17 member-governments of CoCom (Co-ordinating Committee on Multilateral Export Controls), yesterday tried to solve differences between the US and several Western European governments over technology exports to the East bloc, William Dawkins writes.

US officials, at the start of a two-day Paris meeting, denied being isolated against pressure from Bonn and other West European governments for lighter export curbs. But they said there were splits on how CoCom should reform a list of several thousand products which members call too strict. CoCom tries to stop sales of militarily useful technology to communist nations.

Dounreay wins approval as site of N-fuel plant

By David Fishlock, Science Editor

THE Government has given planning approval for a new reprocessing plant for spent nuclear fuel, at the Dounreay plant in northern Scotland.

Mr Malcolm Rifkind, Scottish Secretary, told parliament yesterday he had approved an application made in 1985 for outline planning permission to build the European Demonstration Reprocessing Plant (EDRP) at the site, run by the UK Atomic Energy Authority.

Mr A G Bell, the Scottish 'Reporter', or judge, who conducted the public local inquiry, concluded there is "no reason on health and safety grounds why EDRP could not be built to the high standards required of nuclear plants".

He found the building and operation of EDRP was unlikely to have any adverse impact on the economy, environment or health of the Highlands and Islands region, or the surrounding seas, but found evidence for concern in the Thurso leukaemia cluster, on the northern Scottish coast, that required further investigation.

The project is unlikely to proceed in the foreseeable future, because Europe's plans for introducing the commercial fast reactor have been set back by about eight years.

Approval, however, has important implications for British plans to enter the international market for plutonium reactor fuel in the late-1990s.

The public inquiry into the joint submission by British Nuclear Fuels and the UK AEA examined many controversial aspects of a future plutonium fuel industry, including its safe transport and security.

The original proposal was for Dounreay to host a reprocessing plant for fast reactor fuel, large enough to serve three demonstration fast reactors in Europe. The economics of fast reactors depend importantly on reprocessing the fuel quickly, extracting plutonium and recycling it as fresh fuel to the reactors.

Britain has demonstrated that fuel can be recycled quickly. It had hoped to convince the European fast reactor "club" – principally France and W. Germany – that it should host a reprocessing plant funded jointly by the club.

Soviet Union changes magazines for the new battle

By John Lloyd

THE Soviet Union has furnished proof of its change of heart in international relations from the pursuit of the class struggle across the globe to a doctrine of co-operation by ordering more copies of Marxism Today and fewer of the Morning Star.

Marxism Today, a monthly magazine published by the Communist Party of Great Britain (CPGB), has established itself over the past decade more in the social democratic than the communist tradition. The daily Morning Star newspaper – heir to the Daily Worker – remains militantly communist, giving pride of place to the class struggle at home and abroad.

The Star, which had been the main organ of the CPGB, split from the party five years ago and has since been published by a co-operative. It depends heavily for its income on a block sale of 12,000 copies to the Soviet Union – a sale which is more than half its reported circulation of 22,000.

However, in talks last month between Mr Gordon McClennan, general secretary of the CPGB, and Mr Valentin Falin, head of the international department of the Soviet Communist Party, it was agreed that the small Soviet order for Marxism Today and for the party weekly, Seven Days, would be sharply increased. It is also likely that the number of copies of the Morning Star will be sharply reduced, perhaps to 3,000 copies.

Mr McClennan argued strongly to Mr Falin, and to Mr Alexander Yakovlev, the Politburo member in charge of ideology, that British politics could no longer be properly understood through the medium of the Morning Star.

The Soviet party presently takes 150 copies of the 16,000-circulation Marxism Today, and 50 copies of the 5,000-circulation Seven Days. It is the Morning Star, often weeks out of date, which until recently has been available in hotels all over the Soviet Union and in East European capitals.

Mr John Blevin, the Morning Star's deputy editor, said last night he had no knowledge of any intention to reduce the Soviet order.

Ms Nina Temple, a senior staff member of the CPGB, said last night that the Soviet officials had offered to take "thousands" of copies of Seven Days. However, she added: "We don't want to get into the situation where the paper sells more in the USSR than here."

She added that a problem for larger sales of the party's journals in the Soviet Union would be how to recoup profits in roubles - a familiar problem for Western companies.

A sign of the times – at the congress 10 days ago in Budapest at which the Hungarian Socialist Workers (Communist) Party changed to the Hungarian Socialist Party, the one English language publication for sale in the foyer was . . . Marxism Today.

Engineers set to strike

ENGINEERING unions said yesterday they were going ahead with strikes at British Aerospace and Rolls-Royce, the aeronautical engineering group, from Monday after their first meeting with employer negotiators for six months failed to resolve a dispute over working hours, writes Michael Smith.

The informal talks lasted two hours and it was unclear if there would be another meeting.

The Engineering Employers' Federation said it would be reporting the unions' stance to members at a meeting today.

However, the gap between the two sides remained wide, the engineers' federation said. It was difficult to see how the strikes could be avoided.

Unions are seeking a cut in the working week to 35 hours from 39.

Meanwhile, unions at British Aerospace's plants in Chester and Preston in north west England, and Rolls-Royce's site in Hillington, Glasgow, were preparing to order their members out from around 6am on Monday.

Hearing of the inconclusive outcome of national talks, Mr Gavin Keown, the works convenor at Rolls-Royce's Glasgow plant, said there "must be a strong chance the strike will go ahead."

Poor aluminium outlook

THE UK aluminium industry is bracing itself for a bumpy future, said Mr John Sangster, the president, last night. "Bumpy," he explained, "is our definition of something between a soft landing and running straight into the proverbial brick wall", writes Kenneth Gooding.

He revealed that, although UK output of primary aluminium was currently showing only a slight reduction on the record 300,000 tonnes produced last year, "some sectors of our industry are experiencing a reduction in forward order bookings."

The industry was concerned about its domestic economy, the high interest rates and the sliding pound.

At the federation's annual dinner in London, Mr Sangster reported that the UK's first national campaign to encourage the collection of used aluminium beverage cans had met a "favourable response" from more than 40,000 individuals, charities, voluntary groups, schools and local authorities.

Consequently, the federation expected the aluminium can recycling rate in the UK to double this year alone from the present low rate.

Only about 3.5 per cent of the 4.25bn aluminium beverage cans used in the UK were recycled last year.

SIB intends to recognise Vancouver exchange

By Richard Waters

THE Securities and Investments Board said yesterday it intends to grant official recognition to a stock market that has achieved notoriety over allegations of "market manipulation, stock fraud and trading on inside information."

This will make it easier for UK investors to deal through the Vancouver Stock Exchange, which was at the centre of the Carter-Allen stock fraud, one of Canada's biggest financial scandals in recent years.

The SIB said its planned move follows significant reforms of the market. However, it has also invited comments on the Vancouver exchange in an attempt to gauge the reaction of UK investors to the proposal.

This is the first time the SIB, which has recognised 37 other so-called "designated investment exchanges," has consulted before making a final decision.

The reforms of the Vancouver market, implemented at the start of this year, include an overhaul of surveillance areas and a decision to move to screen-based trading by the end of the year, which will make surveillance easier.

In addition, the SIB says that increased powers given to the British Columbia Securities Commission will enable it to supervise the investment industry more effectively.

Risky stocks will also carry a health warning specifically for UK investors. These are ones which are classified as venture capital stocks, and which account for nearly a half of the companies traded on the exchange.

● A Utah-based company which claims to have been harmed by the action of the UK's Securities and Investment Board has filed a writ claiming damages of £36.4m.

European and American Corporation (Euramco) became the target of SIB action earlier this year, when the regulators froze a bank account in London which contained £68,000 of money raised from investors to buy Euramco's shares.

The company claims that in all more than $200,000 was frozen, and that this frustrated its attempt to buy a 75 per cent stake in a Panamanian gold mine for $805,000.

The money had been raised by Pantell, a Swiss-based investment firm which came under investigation from the Swiss police after allegations that it was making false claims to investors.

In Brief

Developers firm on plan for King's Cross land

THE redevelopment of King's Cross station, north London, and 134 acres of nearby derelict land will go ahead even if BR is forced to abandon plans to use the station as a terminal for its proposed high speed line to the Channel Tunnel linking Britain to France.

London Regeneration Consortium, the developers, said the £450m scheme will go ahead whatever happens to the railway station. The consortium said there was no indication British Rail had cut commitment to the scheme.

Drink campaign

BRITAIN'S leading drinks companies yesterday united in support of a £1m programme to tackle alcohol misuse.

Allied-Lyons, Bass, Courage, Guinness, IDV, Scottish & Newcastle, Seagram, and Whitbread are sponsoring a new organisation, The Portman Group, which will recommend practical initiatives to reduce the health and social problems associated with excessive drinking.

Arts funding call

MR LUKE Rittner, Arts Council secretary-general, yesterday demanded another £41 million for the arts as he made his strongest attack yet on the Government. Mr Rittner said there was a "vital need for a substantial increase in the Government's grant to the arts for next year".

Poisoning research

A £500,000 research programme to discover the causes of food poisoning was launched by the Food Safety Advisory Centre, which was set up earlier this year by the supermarket chains Sainsbury, Tesco, Safeway, Asda, Gateway and Morrisons.

S Wales economy

THE South Wales economy looks to be on target for the soft landing that the Chancellor of the Exchequer has forecast for the country as a whole. A survey by the Cardiff Chamber of Commerce indicates that while interest rates continue to cause concern, there is an underlying optimism among the business community about the course of the economy.

OFT warning

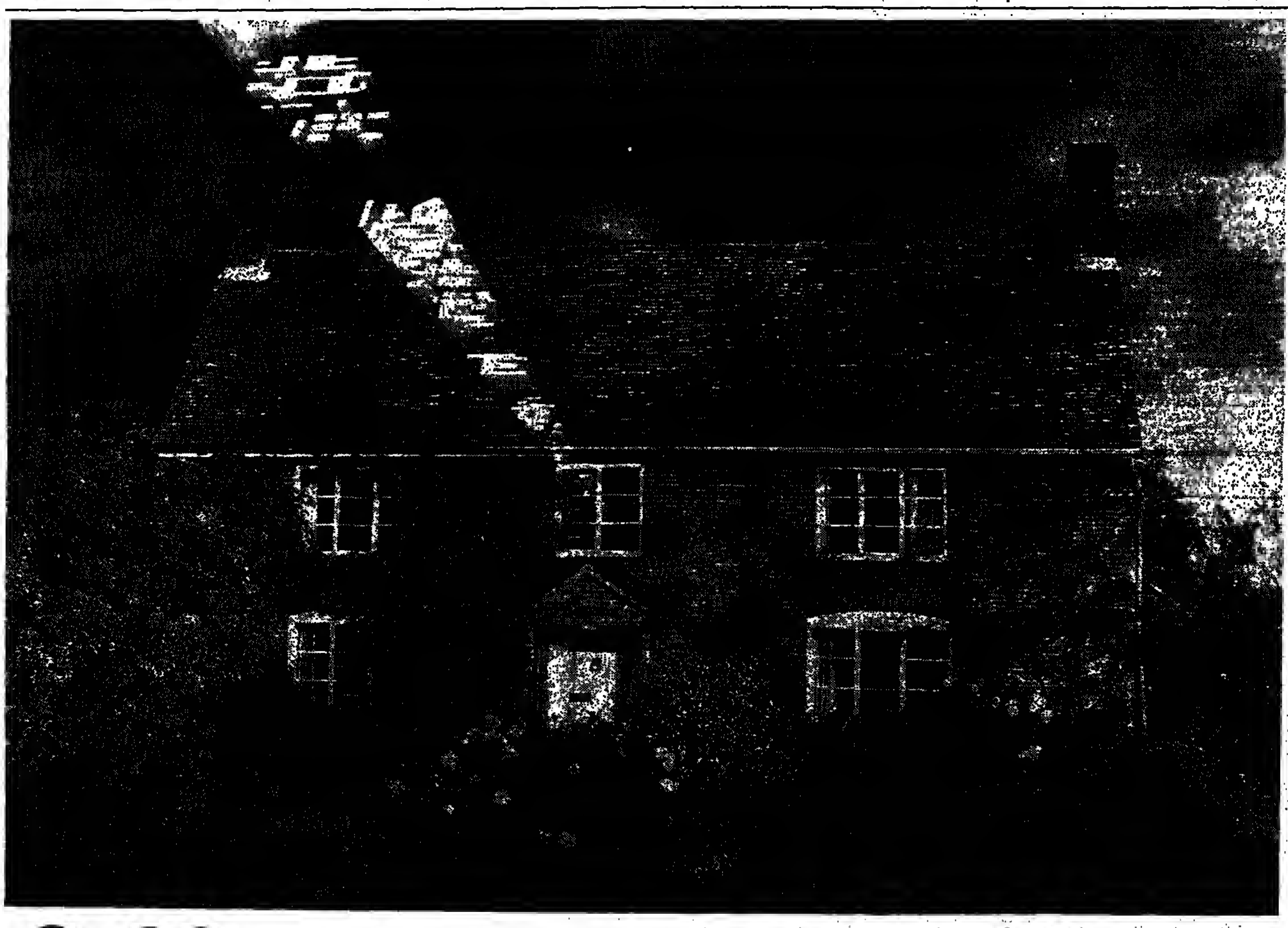
THE Office of Fair Trading issued a warning to estate agents against taking advantage of the current slump in the property market to increase commission charges to clients or create price-fixing cartels with other agents.

University rethink

THE Universities Funding Council, which allocates Government education spending to universities, has dropped plans to force small university physics and chemistry departments to close.

Scottish tourism

PLANS to boost Edinburgh's income by £120 million and create 12,000 jobs in Scotland's tourism industry were announced by the Edinburgh Tourism Initiative, which coordinates various groups.



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Research gains as development is cut

By David Fishlock, Science Editor

MONEY saved by curtailing development in some parts of government is finding its way into research, according to the latest government figures on national expenditure for research and development (R&D).

The figures also suggest that the government has effectively capped R&D spending by the Ministry of Defence.

Defence R&D, which three years ago was forecast to reach 55 per cent of the Government total spending on R&D by the late-1980s, has stabilised at about 50 per cent.

The latest figures, for 1987-88, show government spending of £4.6bn, 4.2 per cent of total central government expenditure.

In addition, it spent £660m on European Community R&D programmes. This public outlay is matched by an estimated £6.3 bn for R&D done in industry.

The science base benefited by £33m in real terms over the previous year, channelled through the research councils and the (former) University Grants Committee.

Total spending in 1987-88 changed little from the previous year, but over the five years to 1992 it is expected to grow by 12.4 per cent.

Expenditure by the research councils is planned to expand, at the expense of R&D by Whitehall departments, notably in energy.

The annual review says this reflects an acknowledged responsibility for supporting underlying science and technology "which, in future years, industry itself will be able to exploit".

Another analysis of the total shows that nearly half (£2.09 bn) was invested in "experimental development", of which defence accounted for 88 per cent.

Other sectors in this analysis are basic research, £840m., and applied research, £1.69bn. Of the basic research, over 95 per cent was funded by the research councils and the University Grants Committee.

Britain is contributing about £660m. a year to the EC's framework R&D programme, managed from Brussels.

About half of this programme provides for R&D relevant to the competitiveness of European industry, and the Department of Trade and Industry takes the lead on Britain's behalf. About 13 per cent of it supports the work of the four laboratories of the EC's Joint Research Centre.

R&D 1989: review of government funded research and development. HMSO. £11.80.

UK NEWS

British Gas told to cut prices to meet competition

MR JAMES McKINNON, the gas industry's official regulator, yesterday urged the Government to introduce immediate competition into gas supply by diverting some of British Gas's present purchases to alternative distributors.

He told a House of Commons committee that British Gas "has the opportunity to cut prices now against competition" which could help to cut prices of landed gas by a third – to 14 pence per therm (unit of gas) from about 21 pence.

In May, the Government endorsed a Monopolies and Mergers Commission proposal that British Gas, which has previously bought the entire output of new fields, should be restricted to 90 per cent with the balance being sold to other customers.

The remaining ten per cent would be sold under contract to industrial and commercial consumers rather than to British Gas's tariff customers.

Although the 90:10 ruling applies to new contracts signed after May, 1989, the delay in bringing new supplies ashore means that it will only take practical effect in the early 1990s.

Alluding to British Petroleum's negotiations with various alternative customers for 10 per cent of its Beryl field, he said there had already been transactions which assured that "a substantial quantity" of gas would become available in 1992/3 for competition.

But in order to weaken British Gas's monopoly more rapidly, Mr. McKinnon said the Department of Energy and the Office of Fair Trading could transfer some of the current North Sea output to other companies. That would mean intervening to break contracts which British Gas holds for existing fields.

Neither the Department of Energy nor British Gas would comment last night on Mr McKinnon's suggestion. However, officials pointed at a possible mechanism for implementing it when they pointed out that negotiations on the 90:10 share-out is being monitored over the next two years and that they will publish annual progress reports.

Mr McKinnon said that competition had already received "a very considerable boost" by this week's decision of Shell and Esso to launch a joint marketing company, Quadrant Gas, to offer contracts to British Gas customers at a lower price and on more flexible terms.

Shell and Esso, with supplies equal to more than 20 per cent of the total UK gas market, have gas immediately available and see Quadrant as a nationwide competitor to British Gas. Other North Sea producers are also thought to be considering entering the market.

Plan for new skyscraper

By Richard Tomkins, Midlands Correspondent

TWO British businessmen plan to build the world's tallest skyscraper in an industrialised area of central England.

Mr Roy Richardson and his brother Don plan to build the £100m structure on the site of their Merry Hill shopping and leisure complex at Brierley Hill, deep in the heavily-industrialised Black Country.

The world's tallest structure to date is the 1,815 ft CN Tower in Toronto, on Lake Ontario, Canada. In contrast, the Black Country tower would offer a vista of factories, industrial estates and derelict land.

The Richardsons say the tower would be similar to the Toronto one attracting large-scale tourism as well as offering potential for communications systems.

They claim planning permission would be waived as the site – one of Europe's largest shopping and leisure complexes – is in a restriction-free enterprise zone.

Harris tweed opts for rough cut in Hebrides

By James Buxton, Scottish Correspondent

SEVERAL hundred crofters on the islands of Lewis and Harris, who supplement their incomes from farming the inhospitable Hebridean landscape north of Scotland by weaving Harris tweed on looms in their back kitchens, were yesterday digesting the news that one of the four mills that make Harris tweed has gone into receivership.

Clansman Holdings, which directly employs 100 people in its Harris tweed mill in Stornoway, capital of Lewis, called in the receiver because of losses it attributes to trends to fashion in the US.

Four years ago the Harris tweed industry was riding high and selling more than half its output to the US, the heavy, colourful tweed is now out of vogue among the rich Americans to whom it used to appeal.

"What's happened at Clansman strikes at the mainstay of our island economy," said Mr Sandy Matheson, convenor of the Western Isles council, "because Harris tweed is an industry which so many islanders are involved in."

To bear the Harris tweed trade mark, the orb symbol, the cloth must be made in the islands by hand from Scottish wool. The mills spin and dye the yarn and then put it out to part time weavers to be made into cloth.

Unlike other tweeds which are made on automatic looms in factories, Harris tweed is deliberately a cottage industry based with a social function.

The average weaver relies on a heavy, often ancient loom bolted to the concrete floor at the back of his house.

He or she works at the loom in between tending the croft's sheep or cattle, or looking after the salmon farms that have sprung up all over the Western Isles.

The old-fashioned picture is somewhat marred by the fact that most weavers belong to the Transport and General Workers, Britain's largest trade union.

But for the past few months the mills have been working short time, the culmination of a downturn which began about three years ago as the US market turned against Harris tweed, a trend aggravated by the fall in the dollar against sterling.

The Japanese market is also currently rather weak, though that in Europe is doing well.

Only about 2.2m yards of Harris tweed were made last year compared with about 5m yards in 1986.

The slump has caused fierce price cutting among the Harris tweed producers which threatens the luxury status of the product.

If Clansman, a private company with turnover of about £3.5m, cannot be revived it could be good news for the other producers who could flourish with the competition reduced.

Clansman is widely regarded as the least efficient of the Harris tweed makers and the most heavily unionised.

Mr Bob Kass of the Highlands and Islands Development Board, which owns 40 per cent of Clansman, says it is in the interest of the industry as a whole that it has decided not to put more money into Clansman.

The board believes the Clansman receivership should lead to an upturn at other mills, and that the amount of work available to the crofting weavers will be largely unaffected.

Mr Donald John Mackay, chief executive of the Harris Tweed Association, which promotes the tweed, believes the problems of the industry are just part of a regular cyclical downturn, but others think that the industry is in gradual long term decline.

Output two decades ago was around 7m or 8m yards a year. This may be because at its lightest, Harris tweed is thick.

"People working in climatised offices don't need it any more and prefer to wear several thin layers of clothing instead of one thick one," says one follower of the industry.

"It's an industry making a single product, selling into a single market (menswear) for a single season (autumn/winter). It desperately needs to broaden out."

That does not mean abandoning Harris tweed itself, which is by definition thick and may not be mixed with other wools such as cashmere.

The heretical thought has crossed the minds of some people that the industry could also develop some lighter-weight products to manufacture under the same traditions, especially as many Scots feel it may be those traditions that are holding the industry back.

Police investigation into Homes Assured

By Richard Waters and Raymond Hughes

POLICE investigations have been scaled up into Homes Assured, the UK financial services group which at one time counted 20,000 council tenants seeking to buy their homes as its clients .

London's Metropolitan Police fraud squad yesterday confirmed it had begun an inquiry into the group. Sir Edward du Cann, chairman of Lonrho, the mining-led conglomerate, and a former Conservative Government minister was a non-executive director of Homes Assured.

The fraud squad move follows investigations by Avon and Somerset police and the Department of Trade and Industry.

Homes Assured was set up two years ago to help council tenants take advantage of the Conservative Government's "Right to Buy" legislation.

News of the inquiry emerged as Sir Edward issued his first statement on the affair since the company went into liquidation, in which he denied any involvement in the management of the company.

Homes Assured board minutes from last year show he regularly attended board meetings and was active in at least two important aspects of the company's business.

The first was its negotiation with Legal & General, the insurance company, of which it eventually became tied agent.

A memo from Sir Edward, dated 31 March, reports a meeting he had with the insurance company. At this, he said he would recommend to the Homes Assurance board that they form an exclusive liaison with Legal & General, in return for "reasonable terms" and an agreement by the insuran company to take over training and control of the Homes Assured staff.

Agreement on financial terms was reached in principle at this meeting, including six advances of £300,000 from the insurance company to finance Homes's new offices and initial operations.

The timing of the latest police investigation suggests that new information has been uncovered about the group.

Ballot by laboratory staff may herald fresh health disruption

By Fiona Thompson, Labour Staff

THE National Health Service faces further disruption with 18,000 medical laboratory staff being balloted on industrial action over the same 6.5 per cent pay offer rejected by ambulance workers.

These skilled workers in the pathology service provide vital diagnostic information for medical staff. They analyse blood and urine samples for diseases such as Aids and hepatitis, conduct cervical cancer screening, and carry out immunology testing and post mortems. They work in hospital laboratories, blood tranfusion centres and public health labs.

MSF, the general technical union which represents 13,000 of the laboratory staff, is balloting its members on the suspension of non-emergency weekend working and on daily one-hour strikes. It has recommended workers accept the action. The result of the workplace vote should be known on November 8.

The three other unions involved – the Nalgo and Nupe public service unions and the Cohse health service union – are balloting their members on the daily one-hour strikes.

If the action is approved, the impact on patients across the country "would be considerable," Mr John Chowcat, MSF national officer, said yesterday. "That is why we have kept the proposals to limited industrial action at this stage."

The proposed action would not stop the pathology service, but slow it considerably.

Despite repeated meetings, the management side on the Whitley Council have refused to budge on the 6.5 per cent offer and have rejected putting the issue to arbitration, said Mr Chowcat.

The NHS laboratory staff had fallen far behind their counterparts in the scientific civil service and even further behind private sector staff. It was increasingly hard to attract young people with good science qualifications, with trainee rates starting at £4,600, and rising to only £6,095.

The top grade medical laboratory scientific officers (15,000 of the 18,000 staff involved) are paid between £7,500 and £9,000.

Meanwhile, talks at the Conciliation Service, Acas, to solve the national dispute on ambulance staff pay adjourned after six hours without a settlement yesterday. Talks will resume this afternoon.

Mr Danny Bryan, chairman of the trade union side on the Whitley Council pay negotiating body for ambulance staff, said there was still a "substantial gulf" between the trade unions and management.

But the fact that Mr Duncan Nichol, NHS chief executive, had made "constructive suggestions", was "an acknowledgment from management that the existing conditions are not tenable", he said.

The ambulance workers want a pay rise which would restore the parity they last had in 1986 with a five-year firefighter – equivalent to an 11.5 per cent rise.

Ambulance staff are also seeking a pay formula that automatically triggers pay rises each year as is the case in the police and fire services.

Dearing to head new accounting watchdog

By David Waller

SIR Ron Dearing, former Post Office chairman, was yesterday appointed to head the tough new accounting standards regime for the UK which he proposed in a report published less than a year ago.

Individual accountants and professional bodies welcomed his appointment yesterday. There had been a growing feeling in the profession that Government inertia over the post was discrediting the Dearing proposals overall.

Sir Ron's priority will be to sort out financing for the new regime, which envisages setting up a Financial Reporting Council and three subsidiary bodies to replace the Accounting Standards Committee.

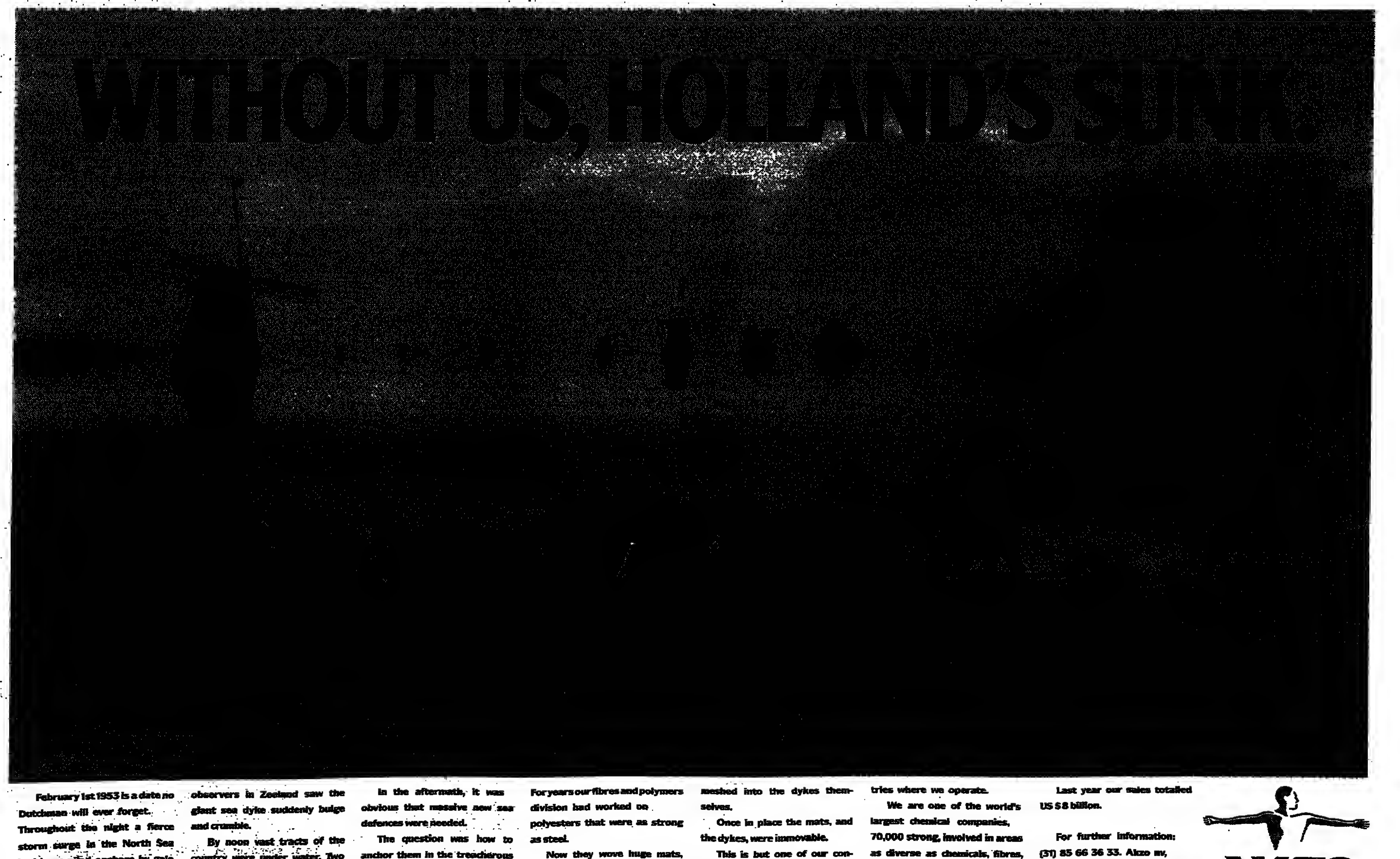
Although Sir Ron originally suggested that it would cost £1.5m a year to run the new body, early this year it became clear that the figure would more realistically be as much as £4m-£5m.

A squabble then broke out between the Stock Exchange, the Government, the Confederation of British Industry (the employers' body) and the accountancy profession, over who should foot the bill. The profession feared this problem would stop a senior businessmen coming aboard to give the new regime clout.

Sir Ron said yesterday that he had begun talks on the financing, having been asked by the Department of Trade and Industry to take up the post of Chairman Designate of the Financial Reporting Council in the last 10 days. He said financing could be sorted out within three months.

The Dearing plan was seen in the profession as a way of tightening apparently slack accounting practices among UK companies. The new body will have more "teeth" than the ASC and is thought likely to take companies to court for breaching its rules.

The Dearing plan has the backing of the multinational accountancy firms which are anxious to build up a strong standards regime in the UK while it is feared that the European Commission will introduce a new tier of European standards.



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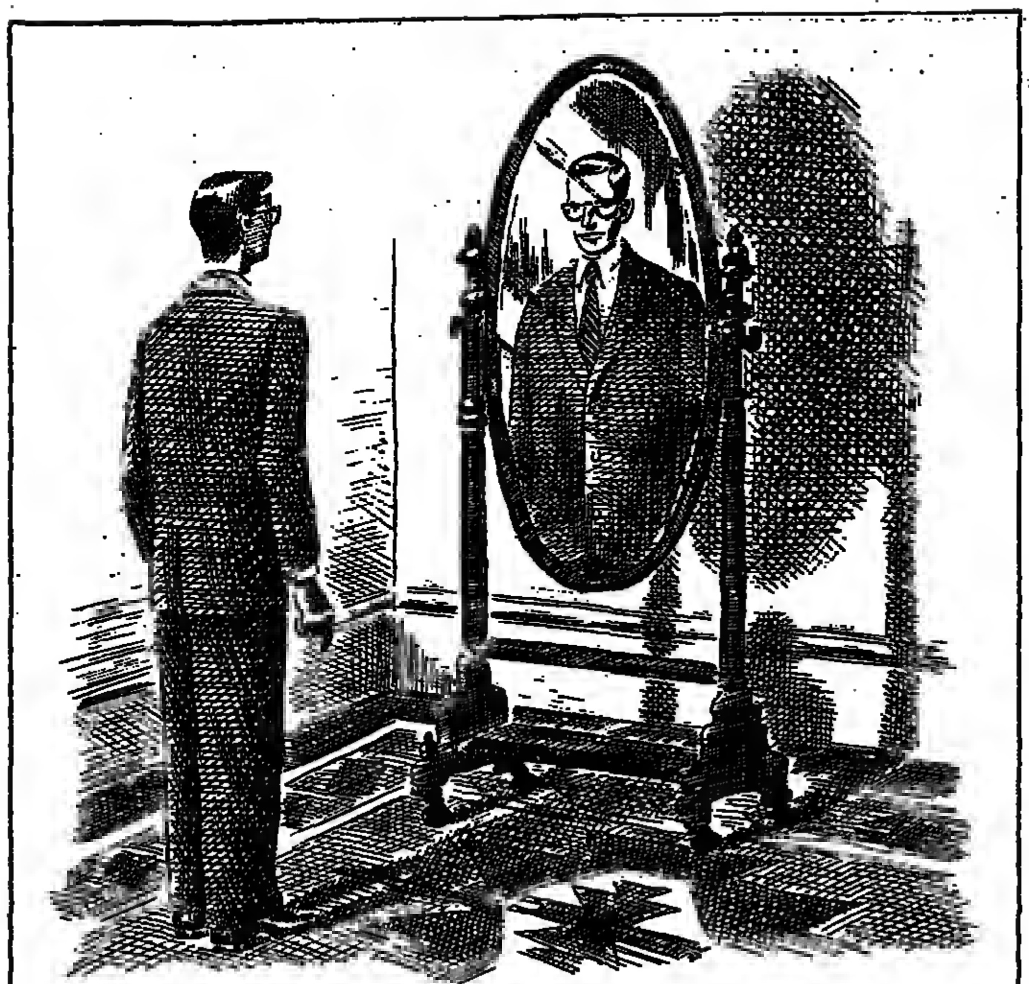

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FINANCIAL TIMES
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BUSINESS LAW

Pilots threaten strikes over US cabotage rights for Europeans

The prospects for a unified European air travel market have increased the pressure on the US government to grant cabotage rights to foreign carriers.

Cabotage is the right to carry passengers and cargo for hire between two points in one country. The Air Line Pilots Association (ALPA), the union representing US pilots, opposes cabotage, and threatens to strike if cabotage rights are granted foreign carriers operating in the US.

A strike over cabotage will test the limits of US constitutional and labour law. Those interested in the cabotage debate should address the need for an imaginative policy for the resolution of disputes in this area.

The Chicago Convention on International Civil Aviation of 1944 respects the complete sovereignty of each nation over the air space above its territory and allows states to refuse cabotage.

States may grant cabotage rights, but not exclusively. The Convention provides that states will neither grant exclusive cabotage rights to airlines from one state nor obtain such exclusive rights.

The US Federal Aviation Act prohibits cabotage by foreign carriers, unless authorised by the Secretary of Transportation and not vetoed by the President for foreign relations or national defence reasons.

International air travel rights are regulated by bilateral treaties. US international aviation goals are to maximise competition, maximise US carriers' international rights, and increase foreign carrier access to US points where reciprocal rights are extended to US carriers abroad.

The US has been encouraging other countries to follow its lead and deregulate air travel, increasing price and service competition. Foreign countries, in turn, have pressed for cabotage rights in treaty revision talks.

The US has increased the number of gateways available to foreign carriers and recently allowed codesharing between domestic and foreign carriers to improve feed for foreign carriers. Codesharing allows a passenger to book one reservation from a US city to a foreign destination, where the US segment is flown on a domestic airline with expedited connections to a foreign carrier at its US gateway.

The US has resisted the granting of cabotage rights to foreign carriers, however. American carriers have opposed it because their financial weakness in adjusting to deregulation after 1978 made them wary of even more competition.

The US is also the largest market for passenger aviation in the world, with over 1m passengers per day – 40 per cent of the world market – and no one foreign country could offer reciprocal privileges that are economically attractive to US carriers.

The creation of a unified European air travel market in 1992, however, would make it possible to address the question of reciprocity, because potentially a united Europe can match or exceed the size of the US market.

Most major US carriers also now have healthy balance sheets, are looking to expand, and may be rethinking their cabotage position accordingly.

Cabotage may also be attractive to those in the US who are concerned about domestic industry concentration and airport capacity constraints, especially at slot controlled airports where foreign carriers already stop en route to other US points, but depart with empty seats on the domestic segment of a flight.

ALPA opposes increased competition in the US air travel market. It even opposes codesharing and is on record as stating that "if cabotage is adopted, we will shut down the US air system in protest."

ALPA is concerned that any increase in competition by foreign carriers will put pressure on US carriers to seek labour concessions to stay competitive. Since ALPA represents most of America's airline pilots, its threat is not an empty one.

The US has little history of political strikes, in large part because collective bargaining is decentralised. ALPA's domination of the pilots and its view on cabotage present new conditions, however, because ALPA's dispute would be essentially with the US government, not the carriers for which pilots fly.

A political strike over cabotage would present novel issues under US law. The US Constitution protects an individual's right to freedom of speech, to association with others and to petition the government.

US antitrust law does not prohibit joint efforts to influence government regulation, even where the object is to restrain trade. The US Railway Labor Act (RLA), which governs labour relations of airline employees, grants employees the right to undertake concerted activities for collective bargaining on pay and working conditions, including strikes.

Remedies for private parties seeking relief against strikes are limited by the Norris LaGuardia Act of 1932, however, which precludes injunctions in labour disputes, including those arising out of political disputes.

Two exceptions to the Norris LaGuardia Act would be tested by a strike over cabotage. Airlines with no-strike clauses in their labour agreements with ALPA could seek injunctions under the RLA, which requires arbitration to resolve labour contract interpretation disputes in lieu of strikes.

Other parties, like suppliers, travel agents and lenders, might consider petitioning the National Labor Relations Board for an injunction under the secondary boycott prohibitions of the National Labor Relations Act, but a definitional technicality may put ALPA beyond the reach of that statute.

If the US government is the moving party to enjoin a strike over cabotage, a case can be made that ALPA's conduct would be improper, because it would be seeking to interfere with the foreign affairs power granted to the President by the Constitution.

US negotiation of the Chicago Convention and bilateral aviation treaties are exercises of this power, which is co-equal with Congress' legislative power to regulate commerce that, in turn, is the basis for ALPA's right to collectively bargain and strike.

The foreign affairs power is not paramount, however, to constitutional rights of speech, association and the like. Litigation over these issues would test whether a decision to allow cabotage falls under the foreign relations or commerce power under the US Constitution, and test the need for Norris LaGuardia Act accommodation to allow injunction of a strike.

The Norris LaGuardia Act might not apply to preclude an injunction against a strike where the object is to reverse a foreign relations judgment or if a court views cabotage as a situation where the US, not a private party, controls the work. However, these issues are untested.

Even if the courts have the power to enjoin a strike over cabotage, there is no guarantee of individual pilot compliance. Neither the public interest in air transportation not collective bargaining is advanced when respect for the law breaks down.

One way to address these difficult issues would be to take account of ALPA's opposition to cabotage, and channel the economic forces underpinning its position into a disputes proceeding that addresses unfair competition concerns.

For example, such a remedy to cause proceedings to be held now exists under the Federal Aviation Act for any US carrier or government agency which believes a foreign air carrier is engaging in unreasonably discriminatory or anticompetitive practices. Unfair labour standard claims might be similarly addressed in those proceedings.

Alternatively, such claims could be treated in the same way that the US precludes "dumping" of products under foreign trade laws, and requires minimum labour standards for US government contracts, with administrative proceedings held to resolve any disputes.

US Secretary of Transportation, Skinner, has begun an initiative to update US transportation policy and is taking comments from all interested parties. The proximity of 1992 and legal uncertainties that would flow from a cabotage decision suggest that the labour law consequences of increased airline competition should not be overlooked.

Dennis A. Arouca *The author is a partner of the US law firm Pepper, Hamilton & Scheetz*

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FT LAW REPORTS

Faith in international sales contracts

By A.H.Hermann

There is a kind of law which evolves like a folk song. It is based on the principle "Do not do to others what you do not want them to do unto you." The only sanctions of such law are public disapproval and not doing business with those who do not comply. Such was the origin of the law merchant (*lex mercatoria*) which was paramount in international trade from the middle ages till the early 17th century, and still received a respectful reference in the Sale of Goods Act 1893.

A very different type of law is that produced by dictators and totalitarian regimes. It is based on the principle that "law is what is good for the party, or what the President wants." There are many countries which live by such law, as British traders discover from time to time when their contracts are declared invalid and their assets confiscated.

Finally, there are the mixed systems which grew up from consensus but are petrified in statutes and judicial decisions, many of them out of date, poorly understood, and bedevilled by contradictions. Both the common law and the civil law belong to this category, and the fact that the one disdains general principles, and the other proudly proclaims them, does not really make much difference in practice.

From this bewildering variety of laws, the UN Convention on Contracts for the International Sale of Goods offers a way out, though it will take some time and much refining by traders and lawyers to make its benefits effective. Unfortunately, as a seminar held last week at Queen Mary College (University of London) was told, British industry does not seem to be sufficiently aware of the significance of the prospective ratification of the convention by the UK. This is almost unavoidable as the convention has been ratified by all important trading partners of the UK and within a few years some 40–50 countries may adhere to it.

The DTI asked in a consultative document widely distributed to industry whether the convention ought to be ratified and if so, whether it should be applicable only when both parties to a contract are in convention countries, or also whenever the contract should be governed by UK law, even if the other party is in a country not in the convention.

The US chose the first, more limited form of ratification, but the US has a modern, Uniform Commercial Court while the UK's Sale of Goods Act, though last revised in 1979, is based on concepts almost a hundred years old. As a practitioner told the seminar, "it is difficult to explain it to an English client and impossible to a foreigner."

Professor Roy Goode, who chaired the seminar, said the choice facing British industrial enterprises and traders is not always between English law and the convention but, very often, between the convention and the law of a foreign country, difficult to understand and costly to translate.

The hostility towards the convention is often based on a rather nebulous perception of what it is, or can become, and on a gut feeling that "we have enough complications with the law as it is."

Some of the big City law firms have only very few clients who actually make and export material products. But Mr Timothy Daniel of D.J. Freeman & Co, the City solicitors, conducted an opinion poll of 16 large manufacturing companies with curious. Five did not reply and two said they had no comment. Eight companies knew about the convention, and out of these, three said it was extremely relevant to their business because they had subsidiaries all over the world and two said it was quite irrelevant because of the same reason. One company thought it was not relevant to its business as it deals with British products only. Four companies thought the convention was a good idea, but another hoped "that this can of worms will not stir again."

Whether one likes the convention or not, once it is ratified it will be impossible to ignore: most international contracts, whether in writing or by word of month, are likely to be governed by the convention automatically, unless the parties opt out of it. If they do not opt out, they may still wish to override some of its provisions by clauses in their contract.

The main advantage of the convention is that it is more understandable than foreign national laws and that it makes interpretation of contracts safer, by reintroducing into the law governing international sales the "good faith" principle – very important in the laws of some of the UK's main trading partners. The world-wide acceptability of the convention could be, of course, achieved only at the cost of some compromises in the text.

The differences in approach between communist countries and western free market economies was not really very great. The communist countries insist on written contracts and take a more rigid view of them. Their priority seems to be to facilitate governmental supervision of contracts and to prevent any subsequent changes in them. By contrast, western legal systems are prepared to cope with conflicts, and to adjust contracts when necessary. But the Communist countries were on the same side as the US and Germany in supporting the inclusion of the "good faith" principle.

A more fundamental difference existed between the trading interests of the industrial countries and of the Third World. The developing countries, being importers of manufactures, obtained the greatest possible protection and advantage for a buyer of industrial goods claiming faults or questioning the supplier's ability to perform his obligations.

The Third World lobby written form of contract.

However, the convention has also benefited from civil law input, particularly in the area of remedies: in addition to damages, the convention provides cures for faults by the seller even after the expiry of time when the performance was due; reduction of price by the buyer if goods do not conform to the promised quality; and grant of additional time which, when missed, can justify avoidance of the contract. The convention suffers of course by several weaknesses of detail, too many to list in an article of this kind, but not too many to be taken care of in

seems to have been too successful for its own good, as few western suppliers are willing to accept provisions which expose them to claims made a long time after delivery and to a suspension of the buyer's obligation if it becomes "apparent" from the seller's preparations that he will not perform the contract. Also the provisions on *force majeure* are quite inequitable, placing the seller at a great disadvantage. However, these provisions can be overruled by contract. This applies to all articles of the convention, with the exception of Article 12, under which signatory states can insist on a drafting a contract. Guidance on this must not be delayed any longer as the convention is already in force in some 20 countries which have ratified it and is used in others like Hong Kong, which has not.

One of the more serious objections to the convention is that it will be interpreted differently by different courts. Reporting of national judgments relevant to the convention will be the only means of influencing uniformity of interpretation. *To be fully effective* such reports should not be confined to learned journals.

The pessimistic view voiced at the seminar was that divergent national interpretations will completely frustrate the unification objective: the national interpretation will differ as much as national laws do at present.

The optimistic view is that the convention is only a skeleton to which practice and courts will add flesh and muscle, making it one of the laws which evolve like a folk song. If the optimists are proved right – and one ought to help this to happen – the convention could become a most useful legal tool of British exporters, and of particular value to smaller enterprises operating without standard contracts of their own. But there is need for a health warning: the convention is not fit for consumption as it is; it needs to be adjusted to the deal by an agreement of the parties.

The author is D.J. Freeman & Co, Senior Research Fellow in International Trade Law at Queen Mary College, University of London.

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High	Low	Company	Price	Change	Gross div (p)	Yield %	P/E
343	295	Ass. Brit. Ind. Ordinary	336	0	10.3	3.1	9.1
38	28	Armitage and Rhodes	30	0	-	-	-
210	149	Bardon Group (SE)	162	-1	4.3	2.7	15.7
125	103	Bardon Group Cv. Pref. (SE)	104xd	0	6.7	6.4	-
129	80	Bray Technologies	80	0	5.9	7.4	7.1
110	105	Brenhill Conv. Pref	105	0	11.0	10.5	-
104	100	Brenhill 8¼% New C.C.R.P	104	0	11.0	10.6	-
306	285	CCL Group Ordinary	288	0	14.7	5.1	9.6
176	168	CCL Group 11% Conv.Pref	171	0	14.7	8.6	-
225	140	Carbo Plc (SE)	212	0	7.6	3.6	12.5
119	109	Carbo 7.5% Pref (SE)	110	0	10.3	9.4	-
7.5	1.5	Magnet Gp Non-Voting A Cnv*	1.5sus	0	-	-	-
5	0.75	Magnet Gp Non-Voting B Cnv*	0.75sus	0	-	-	-
130	119	Isis Group	124	-1	8.0	6.5	7.1
145	58	Jackson Group (SE)	110	-2	3.6	3.2	12.8
322	261	Multihouse NV (AmstSE)	295	0	-	-	-
158	98	Robert Jenkins	157	+1	10.0	6.4	5.7
467	365	Scruttons	375xd	0	18.7	5.0	10.0
300	270	Torday & Carlisle	298	0	9.3	3.1	10.4
117	100	Torday & Carlisle Cnv Pref	110	0	10.7	9.7	-
122	84	Trenton Holdings (USM)	86	0	2.7	3.2	9.2
158	106	Unistrut Europe Conv Pref	150xd	0	9.3	6.2	-
398	355	Veterinary Drug Co. Ltd	366	0	22.0	6.0	9.4
370	325	W.S Yeates	327	0	16.2	5.0	27.3

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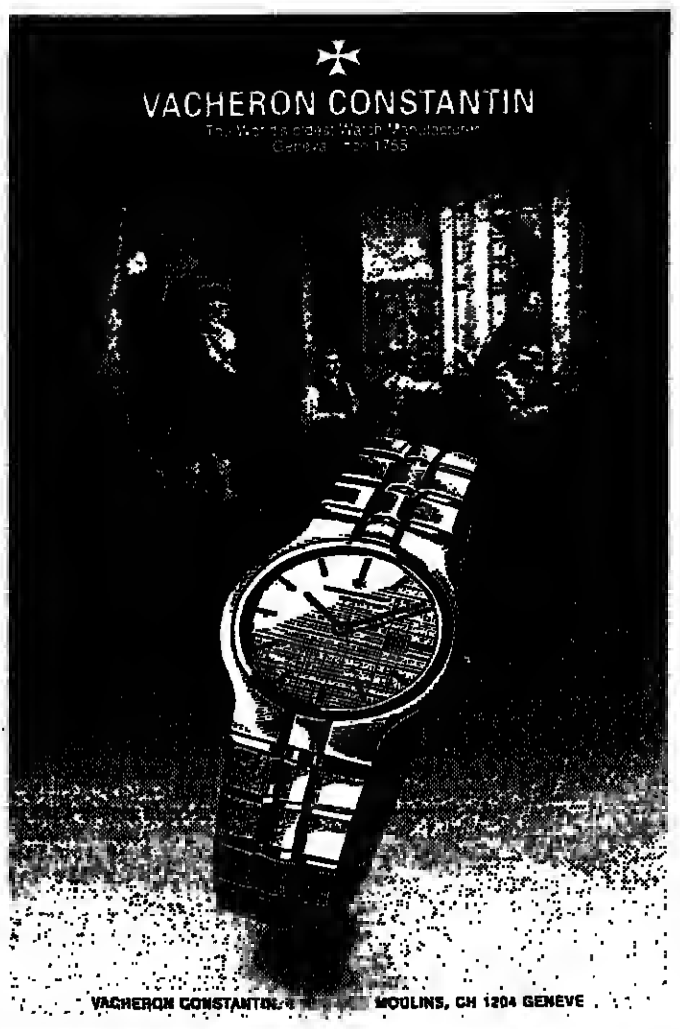

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Dec. 2170/2180 +3	Dec. 2664/2676 -3

5pm Prices. Change from previous 9pm close

DEFENCE

The Financial Times proposes to publish this survey on:

6th December 1989

For a full editorial synopsis and advertisement details, please contact:

Ian Ely-Corbett
on 01-873 3389

or write to him at:

Number One
Southwark Bridge
London
SE1 9HL

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

Notice of Redemption
To the Holders of

City Federal Savings Bank

Collateralized Floating Rate Notes
Due 1993 (the "Notes")

NOTICE IS HEREBY GIVEN that, pursuant to Section 11.05 of the Indenture dated as of August 15, 1986 between Citibank, N.A., and City Federal Savings Bank, under which U.S. $75,000,000 principal amount of Notes were issued, City Federal Savings Bank has elected to redeem all of the outstanding Notes on November 30, 1989 (the "Redemption Date") at a price equal to 100% of their principal amount (the "Redemption Price"), plus interest accrued to, but not including, the Redemption Date.

On the Redemption Date, the Notes shall become due and payable and interest thereon shall cease to accrue on and after said date. Interest due November 30, 1989 will be paid in the usual manner. The Redemption Price of each Note will be paid upon presentation and surrender thereof, at Citibank, N.A., Citibank House, 336 Strand, London, WC2R1HB; Citicorp Investment Bank (Luxembourg) S.A., 16, Avenue Marie Therese, Luxembourg and Citicorp Investment Bank (Switzerland), Bahnhofstrasse 63, 8021 Zurich, Switzerland.

Payments in respect of the Redemption Price and accrued interest on the Notes shall be made in such coin or currency of the United States of America as at time of payment shall be legal tender for the payment of public and private debts and will be made, subject to any applicable laws or regulations.

Dated: October 26, 1989

Citibank, N.A., as
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MANAGEMENT: Marketing and Advertising

Why Littlewoods is reverting to selling on price

By Maggie Urry

Although the Christmas lights are already going up in London's Oxford Street many shops in British high streets are filling their windows with less festive signs – sales stickers are rife.

So-called "mid-season" sales appear to be normal these days, and shoppers are wondering when seasons begin and end. They are equally confused by discounts of as much as 50 per cent, to the point where it is hard to know what true prices are any more.

In such a market, it is tough for retailers to come up with a new sales promotion that works. Littlewoods, the chain store retailer with 116 stores, has launched "Moneysworth" – an everyday-low-prices promise along the lines of those run by leading US retailers.

The plan is to start the campaign with price cuts averaging around 10 per cent on its 104 top selling, and most price sensitive, clothing lines. A woman's basic jumper is reduced from £10.99 to £9.99, and a man's lambswool sweater by £2 to £15.99.

Until November 11 the shops will run a refund-the-difference price pledge on comparable products, so long as other stores do not go in for distress selling on similar lines.

Thereafter the price pledge disappears, but Littlewoods hopes to convince customers that it is the store offering the lowest prices around.

Francis Ball, acting managing director of the Littlewoods chain stores, does not want to go for a "discounter" image which he believes would be self-defeating. He admits that customers' perception of Littlewoods as a cheap place to shop has been damaged by its store refurbishment programme and the introduction of more mid-priced ranges.

The 104 lines make up 40 per cent of Littlewoods clothing sales, which in turn account for 45 of the chain store's sales. Thus the price cuts are no light matter, and the group's suppliers have been cajoled or bullied into supporting the promotion through discounts to Littlewoods, based on each supplier's business with the group over the year in the hope that volumes will increase sufficiently to compensate.

Littlewoods' clothing sales volumes have been significantly lower this year. There have also been opportunities to make savings, for instance where goods have been over-packaged.

Ball, who says the current period of gloom in clothing sales is the worst he has seen in 17 years in retailing, believes Littlewoods can "wage and win a price war." He reckons that Littlewoods' profit margins will not suffer from the price cuts.

Retail analysts argue that no one wins a price war, pointing to the example of the food retailing sector in the last years of the 1970s.

In 1977 Tesco announced price cuts and achieved large volume gains. But others in the sector responded and the market descended into turmoil, with profits suffering. In the 1980s most of the major food retailers opted for a quality and value for money stance and a move into superstores, rather than a straight low price offer, although discounters such as Kwik Save have established a niche in the market.

Analysts also question whether shoppers who have become more sophisticated and demanding during the 1980s, will respond to a low price offer. However, Littlewoods' customers are at the harder-up end of the income scale where cheapness is more appealing.

So far Littlewoods' rivals appear not to have not responded specifically to the Moneysworth launch, though it would be difficult to tell if they do since most retailers have promotions planned anyway.

Ball argues that Littlewoods is in the best position to win a price war, since, he says, "we have the lowest prices already." Therefore, he argues, other retailers will have to cut prices by a greater proportion to meet Littlewoods' prices.

UK toy market

Parents put tradition under the tree

David Churchill assesses the prospects for pre-Christmas sales

Sandy Duncan, a young Scottish architect, was designing a new beach house for the Sultan of Brunei in the mid-1980s when, like many expatriates, he became bored with the lifestyle. "I played Trivial Pursuits for the first time while imbibing large quantities of gin at the Royal Brunei Yacht Club and felt that I could do as well – if not better – in designing such a game," he says.

So he tinkered with various ideas and came up with a hexagonal-design board – "a bit like an Italian tiled floor" – and a game which he called Enigma. It was based on solving riddles which he had written himself. "It was great fun to play with all my friends out there, but I didn't really think it would come to much," he recalls.

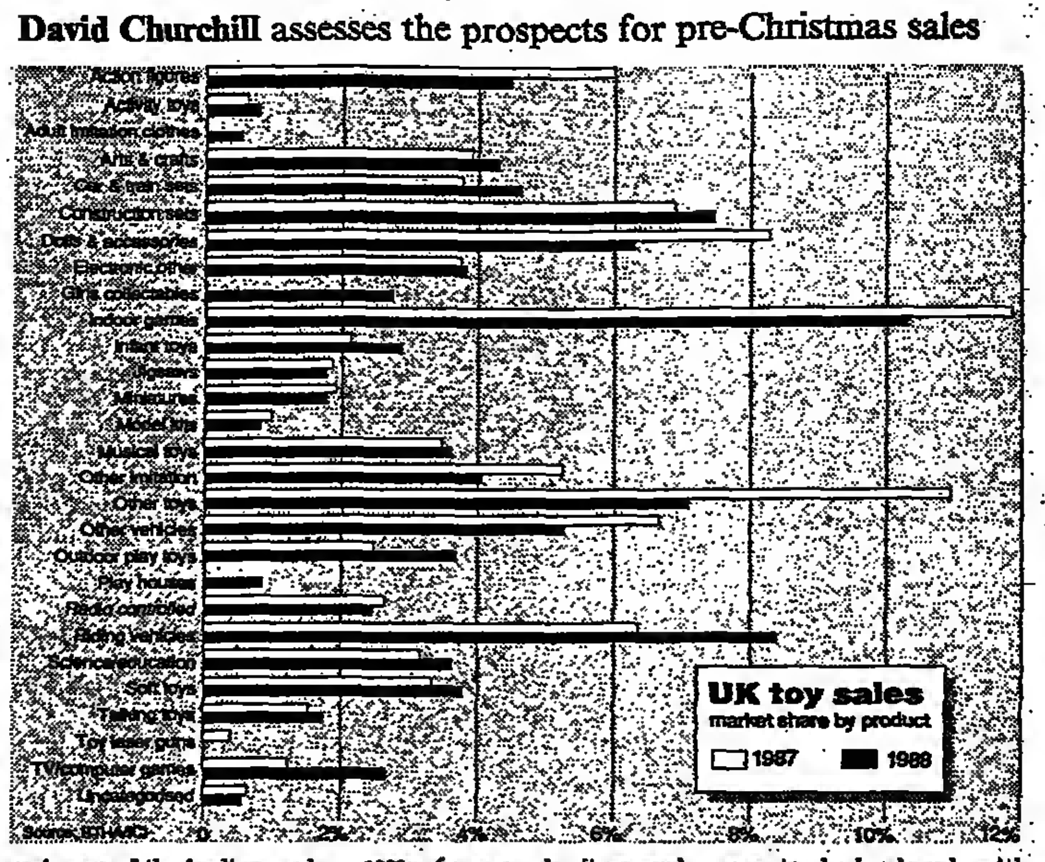
However, on his return to the UK to take an MBA at Edinburgh University he decided to focus part of his thesis on the toys and games market. "I discovered that there were tremendous marketing opportunities for a board game that was a bit different," he says. More than 200 students played the game and completed a marketing questionnaire on all aspects of the game, from the ease of handling the pieces to the degree to which it stimulated competitiveness among the players.

Along with fellow student Claire McCool, Duncan set up a company – Drummond Park – and decided to test-market the game in Scotland and Northern Ireland in the run-up to Christmas last year. The game caught on among students and yuppies, at a price of just under £30, and Duncan and partner decided to take the game national this year.

So far, reports from leading toy retailers show that Enigma is already mounting a determined challenge to established board games such as Pictionary and Scruples for leadership of the board games sector this Christmas.

Enigma, moreover, is a typical example of the extent of product innovation in the toy trade which, points out Colin Buckingham, marketing director of market researchers Nielsen. He says this is often overlooked. "Few businesses within the major fast moving consumer goods or durables areas can rival its track record on innovation," he says.

"Most of the major brands in these sectors have very long life cycles," he points out. Only one of the top five coffee brands, for example, was introduced in the past five years and none of the leading ready-to-eat cereals.



Yet the sheer pace of change in the toy business is in stark contrast to this, adds Buckingham. Eight of the top ten board games in 1988 came onto the market within the previous five years; the only exceptions are the perennial favourites, Scrabble and Monopoly.

Such product innovation, however, can work to the industry's disadvantage; it creates an environment where parents, children, and industry observers are constantly searching for new toys and games to stimulate the market. Yet the trend over the past two years – and so far this year as well – has been for traditional toys such as teddy bears, dolls, trains, and model cars to become the best sellers.

What the UK toy industry has been forced to rediscover in recent years is the fickleness of children when it comes to choosing toys. In the early 1980s, for example, it seemed that nothing would stop the advance of electronic and video toys and games. But just as the industry embraced this trend, so children forsook them for character toys such as Masters of the Universe. Now they have seemingly lost interest in this genre.

But some industry observers believe that the toy companies are too eager to find new replacements for yesterday's best-sellers. "In the pre-school market, for example, the entire consumer base changes every four to five years and mothers search longingly for the perennial toys that they themselves enjoyed in childhood," says one.

Research carried out by Nielsen this summer into the toy-buying preferences of over 700 children – covering 130 different toy products and brands – found that the children of the late-1980s clearly preferred the same sorts of toy that their parents had played with. Matchbox model cars and Lego construction kits were the most popular among boys aged up to 13 in the survey, while Barbie and Sindy dolls – soon celebrating their 50th birthdays – were clear favourites with girls. These age-old rivals still figure in the top three toys most played with by five and 10 year-old girls.

Nielsen's survey also found that it is when children "discover the wheel" that the popularity of traditional toys is most apparent. Wheeled toys such as tricycles, bicycles, and scooters took the number one spot for both boys and girls in all age groups from five to 13. "They are one of the few toy categories which consistently cross the barriers of age and sex," says Nielsen.

The revival of traditional toys has significant implications for the advertising of toys such as character figures like Masters of the Universe which rely heavily on television advertising to gain a place in the market. "Over the last five years the number of messages being delivered to children has fallen at a time when the industry is growing, and specifically the support per brand advertised is virtually half that of the 1985 level," points out Peter Brown, managing director of Tomy in the UK, part of the Japanese toy group.

"If current trends continue then television will play a decreasing role in the marketing of toys," he suggests. Half of Tomy's top selling brands are not advertised on TV, he adds, with no effect on sales.

Yet with only 51 shopping days to Christmas, the UK toy trade is looking increasingly nervous about the impact of the present slow-down in consumer spending. Some 40 per cent of total spending on toys and games – valued at £1bn at retail prices last year – traditionally comes within the last two months of the year.

It is this spending which looks vulnerable. "Real disposable income is the key factor which affects demand," believes Brown. "Price and population are not statistically significant." He bases these comments on an analysis of the 40 per cent increase in volume in toys sold in the UK since 1983. "Some of this growth came from an increase of 5 per cent in numbers of children aged between 0 and 9 years, as well as a 14 per cent drop in the real price of toys," he says.

"But it was the 17 per cent growth in real disposable incomes which was the main factor behind the rise in the market," he insists.

Whether the market holds up for Christmas – and toy traders this week were maintaining their belief that spending on toys at Christmas is among the last items to be cut-back in any downturn in spending – Colin Buckingham of Nielsen believes that the industry should not be too pessimistic in the long-term. "Across all the 300 or more markets measured continuously by Nielsen in both fast moving consumer goods and durables, four of the top ten growth sectors are in toys," he says.

"The real challenge for the toy trade is to add greater marketing precision to the industry's flair and creativity," he adds.

For Sandy Duncan and his Enigma game, however, the real riddle of the toy trade's potential over the next 51 days has still to be answered.

Appeal of 'wet' hobbies

A million more people will be messing about in boats or splashing about in the water by the end of the 1990s, suggests a report on water sports in the UK.

Leading the way to water will be the over-50s, an expanding consumer group seeking new ways of spending their leisure time. But the "green" movement will also have an impact; more people, according to the report, will see water sports as an ecologically sound way of taking recreation.

Water sports – ranging from traditional boating through to water skiing – have become a major leisure industry in the 1980s. Numbers taking part have risen since the beginning of the decade by about a third to reach the present 3m active participants and a forecast 4m by the year 2000.

Spending has been more volatile; the recession of the early 1980s led to a fall in the value of the market, but there has been a marked recovery since 1985 with expenditure reaching £520m last year.

Half of this expenditure was on equipment, with 42 per cent being spent on services, including mooring, hiring, and repair and maintenance. Only about 8 per cent of total expenditure was on clothing and footwear.

Leisure Consultants, which carried out the study, points out that the industry is largely fragmented and "will need to reorient itself to rationalise the present cottage industry structure if it is to take advantage of the market's potential."

This potential depends, like most other leisure sectors, on consumer spending remaining fairly buoyant. "The equipment sector of the water sports market can be seen as the most sensitive to the effects of recession and subsequent growth," it points out.

But it believes that the greater participation by mature consumers in water sports in the next decade will mitigate any short-term downturn, since the over-50s will include many with considerable disposable income.

The greatest opportunities, according to the report, lie in the provision of facilities and services – hence the growth of marinas and moorings in recent years.

Boating and Water Sports in Britain, Leisure Consultants, Sudbury, Suffolk. £185.

David Churchill

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TECHNOLOGY

Lynton McLain examines the prospects of illuminating buildings through designed visualisation schemes

Computers that see the light

People receive more than three quarters of their perception of the world through their eyes, yet the light that makes sight possible is taken largely for granted. Many people think that little can be done to change the way light is used.

Industry thinks otherwise. It is starting to use computers to control lighting schemes that respond to changing environments and to the individual demands of people. Some companies use their telephones to control the lights.

The Chase Manhattan Bank has recently installed an automated lighting control system linked to the telephone network in its London offices. The system was designed by Illuminated Management Associates of Sittingbourne, Kent, and has cut the bank's annual lighting bill by up to 64 per cent – saving £40,000 a year.

Lights by windows go off automatically at mid-day and all lights go out at the end of the day. The employees at the bank are able to override the automatic controls through their telephones to put lights in their area on or off.

The lighting market is worth an estimated £20bn a year worldwide, with about three quarters of demand coming from outside China and the Comecon countries. Much of this demand is traditional; one typical light bulb factory in south Wales produces 65m conventional – but largely inefficient – light bulbs a year.

If all conventional light bulbs were replaced by advanced technology lamps such as compact fluorescent lamps controlled by electronics, the energy saving could be equivalent to closing six nuclear or four coal-fired power stations, according to Thorn Lighting, part of Thorn EMI.

Advanced lamps offer the prospect of imaginative lighting schemes. They are up to five times more efficient at converting electricity into light than conventional bulbs, and offer tremendous costs savings. Thorn Lighting forecasts that by the end of the century all UK commercial offices will have "some form of lighting management."

Imagine "walking" into the computer-based image of a house, office, or factory and seeing what it looks like when lit by a designed lighting scheme. You don't like the result. Well, try a different lighting scheme, or another, until you find the ideal lighting. Once the choice is made, a computer will design fittings for the lights and estimate the costs and delivery dates of the completed system. The computer will simulate conditions and varying requirements at different times of the day, or for different moods. The scheme will include sensors to link light output – and energy consumption – to the amount of sunlight filtering through windows.

The link between lighting and computer power is still in its infancy, but should make an impact on the way architects design buildings, the way people work and the way they live at home. The lighting industry sees this as a big growth area.

According to Thorn Lighting, one of the few wholly UK companies still making lamps and their associated fittings, these developments could help to motivate people at work and to make their work easier. Computerised lighting tailored to a particular task could cut eye strain and headaches, making the office environment more comfortable and healthy.

Thorn Lighting has developed a computer-based scheme that offers comprehensive facilities for the electronic simulation of lighting in buildings. Kenneth Scott, director for research and engineering at Thorn Lighting's central research laboratories at Hayes, Middlesex, says that such a scheme offers the prospect of a "doorway" to enable ordinary people to understand lighting. At the moment, lighting technology and lighting schemes are described mainly in terms of figures and mathematics that are suitable only for the technically erudite.

He envisages making computer-based lighting visualisation systems available to ordinary people for designing lighting schemes for their homes, as well as architects and other specialists. People could try out alternative lighting schemes before purchasing lights by using the type of computer program already developed by Thorn Lighting.

Scott emphasises that such a scheme is "not there yet," but work is under way to develop it using parallel computers to speed up the work. These require a large amount of data processing power, "because of the size of the mathematical task involved," he says.

The computer illustrates the simplest room – a floor, ceiling and four walls, a total of six surfaces. It then processes light emissions from different sources and reveals how they are reflected and absorbed. Ideally, the computer should be able to handle information on light at every point on a surface. Since this would require a computer with infinite capacity, however, Thorn Lighting has devised computer programs that break down the six surfaces of the simple room into 1,000 surfaces.

Any complacency over lighting in industry and commerce could be explained by the low proportion of a typical commercial company's operating expenses accounted for by its light bill. Lighting accounts about half a per cent of costs, yet represents about 40 per cent of the total electricity used in a typical office.

In contrast, salaries and wages account for 84 per cent of costs. But people are wholly dependent on lighting. Energy consumption is an aspect of lighting that is often neglected, yet lighting costs UK industrial, commercial and domestic consumers about £1.6bn a year, equivalent fo 15 per cent of national energy consumption.

The use of computers to help people design more efficient lighting is one example of current attempts to control light more closely. The most advanced lighting systems, in use and planned, deploy electronics to control the output of light, as well as to consider wider environmental controls.

Fluorescent tubes are the main source of lighting in industry and commerce. Until the development of high frequency control and regulation equipment for the tubes in the 1980s it was difficult to control the light output of these workhorses of light in the workplace. Fluorescent tubes with older equipment could not be dimmed; they were either on or off.

The availability of electronic high frequency equipment, operating at about 30,000 cycles a second, has led the way to savings of up to 30 per cent in energy consumption in fluorescent tubes compared with tubes that operate at the traditional mains electricity frequency of 50 cycles a second, according to Philips, the Dutch company that is one of the leading producers of lamps.

The use of high frequencies allows the light output to be varied from its maximum, 100 per cent, to as low as 10 per cent. This controlability is a potentially greater source of energy savings than simply switching the lights off, Thorn Lighting says. The high frequency operation of fluorescent tubes can be linked with other electronic devices, such as photo-electric sensors, which respond to light and can form the basis of systems to control the lighting of buildings.

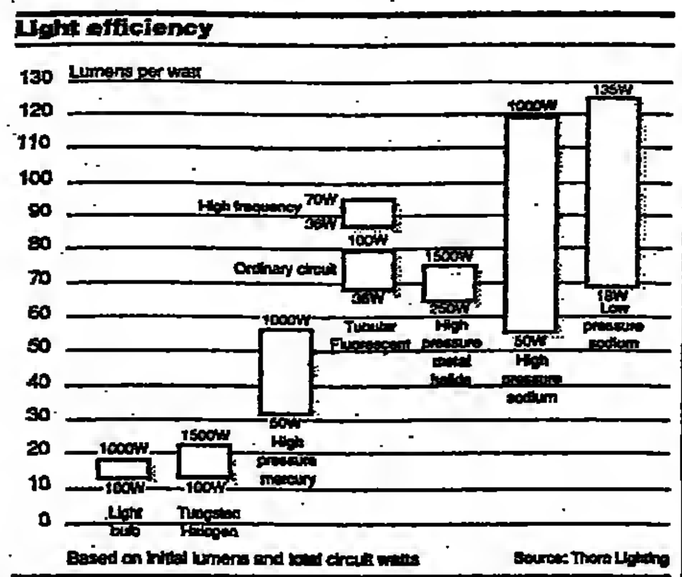
Thorn Lighting launched its controllable visual amenity system (C-VAS) less than a year sgo and is currently installing three systems – at the L'Oreal hair products company in London, the Civil Aviation Authority, West Drayton and Thorn Lighting's new headquarters at Borehamwood.

The system is based on fluorescent tubes operating at high frequency with output controlled by programmable timer controllers. The controller is programmed to increase or decrease light levels – in response to signals from photocells – which monitor constantly changing daylight. Variable illuminance controllers respond to the preferences of individuals members of staff, or to changes in the pattern of work, and can receive pre-set instructions from the programmable controller.

Even when people become conscious of the need for good lighting practice, lighting is still likely to be taken for granted. "The criterion of good lighting is just that – you don't notice it," Mr Scott says.

He says that if we could imagine modern life without modern lighting, the thought would revolutionise the way we think about light; it would put our thoughts back 5,000 years.

Light efficiency



Based on initial lumens and total circuit watts Source: Thorn Lighting

Wafers with chips in the middle

A COMPUTER storage technology, which is cheaper to use than memory chips yet retrieves the information more quickly than disks, is being launched today.

The memory device uses wafer-scale integration technology. It involves printing a set of chips, complete with their connections, on to a silicon wafer, rather than splitting the wafer into individual chips which must be then connected together.

In the Wafer Stack, which has been developed by Anamartic, of Cambridge, and manufactured by Fujitsu, of Japan, two wafers are packaged together, facing inwards. Four double wafers are then mated together in a device about the same size as an eight-inch magnetic disk. The unit gives 160 Mbytes of storage – enough to contain the equivalent of 30m words.

The first company to sell computer peripherals based on the device will be Tandem Computers of the US.

Put the photos on your credit card

THE latest cameras to hit the streets of Tokyo in time for the Christmas shopping spree will store photos digitally on a slice of plastic the size of a credit card.

The digital still camera system, developed jointly by Toshiba and Fuji Photo Film, stores up to 12 photo images on each card. The card contains 18 one-megabit chips – capable of storing the equivalent of 2m characters. The chips are used to store over 400 horizontal lines on each of the photos, giving superb picture resolution.

Because the picture is stored digitally, the images can be fed into computer equipment and subsequently processed, for input into documents, for example.

The photos can also be transferred to the latest Japanese audio technology, digital audio tape, and viewed on a television screen. Each tape can store 1,000 pictures on a single 120 minute cassette.

Top secret and smart too

BANKS connected to the Visa International credit card network have a new source for equipment which ensures the security of information transmitted across the system.

Visa has approved a microprocessor-based security module, from Zergo of Hampshire, which will help protect information transmitted by Visa's 19,000 member banks worldwide.

Unlike previous modules, the one from Zergo can be re-programmed by using a smart card – a plastic card incorporating a memory chip. In the past if critical information needed changing the relevant chip in the security module had to be prised out ond replaced by a newly programmed one.

The designers claim that the Zergo unit is considerably smaller than previous Visa security modules. The module encodes and deciphers information using a logarithm known as data encrytion standard.

Beep Beep goes the road monitor

ROADRUNNER has nothing on a system developed by the UK's Department of Transport to detect bumps and holes in the UK's trunk roads and motorways.

The machine, known as the High Speed Road Monitor (HRM), detects road surface defects while the van which tows it travels at a speed of 50 mph. Manufactured by WDM of Bristol, the HRM will cover 200km a day – the equivalent of half of the UK's major roads every year.

The HRM uses an array of lasers to trace the shape of the road surface. That information is processed by microcomputer and takes into account the road's curvature, plus rises and dips along its route.

One laser is used to road special coded marker plates – relatives of the bar codes which are printed on consumer goods – installed along the roadside. In the UK there will be 4,000 such plates constantly updating the machine about its location.

No interference from plastic

WHAT KIND of building is the size of a barn, has no windows and is made of plastic?

The answer is a building designed to test electrical and electronic equipment to ensure the gadgets fall within the strict limits on electromagnetic disturbance levels.

New European Commission limits will come into force in January 1990.

Electromagnetic waves, emitted by all electrically powered equipment, can interfere with other devices and disrupt the way they function. In the worst cases, satellites have allegedly ceased to operate as a result of such interference.

The EC rules stipulate that wave levels should be measured in an "open field" environment – particularly difficult in northern Europe'e rainy climate. Wyful Plastics, of Fareham, Hampshire, has developed a structure which is completely transparent to radio waves, thereby replicating open field conditions.

The building is made of an insulating core of polyurethane foam sandwiched between two skins of fibreglass resin. Even the bolts and hinges are made of plastic.

WORTH WATCHING

Edited by Della Bradshaw

Beaming up the batteries

BOAT OWNERS will be the first to benefit from a space age battery charger, which weighs only one seventh of a conventional unit.

The lead acid battery charger uses a switch-pulse technique developed during space research, which involves cutting the voltage into several small pieces and directing it to sections of the battery.

The charger, developed by LEAB of Stockholm, could also be used for wheelchair or car batteries or to charge back-up batteries in industrial power installations.

Contacts: Anamartic: UK, 0223 440055. Toshiba: Japan, 3 457 2184. Zergo: UK, 025 126 4545. WDM: UK, 0270 567239. Wyful: UK, 0329 283443. LEAB: Sweden, 913 10 300.

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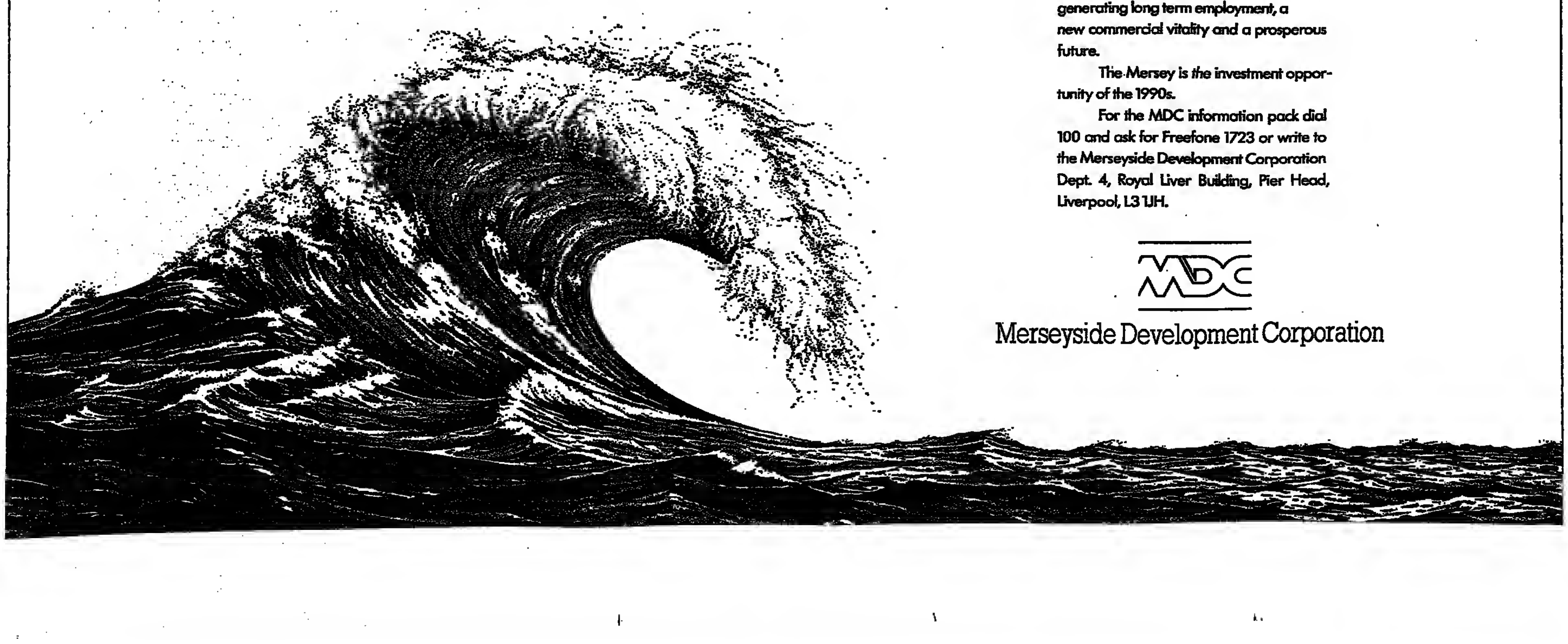

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ARTS

The Cherry Orchard

ALDWYCH THEATRE

Bernard Hill, Lesley Manville, Judi Dench and Miranda Foster

Alastair Muir

The sound of axe biting into cherrywood is heard again in the West End. The once usual complaint that British productions turn Chekhov into quintessentially upper middle class Englishness, as infuriatingly nice people wilfully refuse help in their graceful decline, will be stilled. Whatever Sam Mendes' production of Michael Frayn's translation may be, it is not quintessentially English.

From Ranyevskaya's return to her old home, jumping up and down on the sofa with her daughter and planting smacking kisses on the bookcase, to the sudden sobbing embrace of middle-aged brother and sister as they leave their lost heritage – which turns into the giggling, whirling ring-a-roses of eternal children – it is robust, emotional, fast and noisy.

The director, unnervingly still in his early 20s, has a good if necessarily brief track record at the Chichester Festival, where his strong, atmospheric production last season of Maxim Gorgy's *Summerfolk* had everyone murmuring "Chekhovian". Paradoxically, and admirably, this Chekhov production steers clear of the mixture as before; indeed, refuses disconcertingly to conform to our cliché image of Anton Pavlovich.

Paul Farnsworth's light, spacious set, as with his design for *Summerfolk*, is evocative, initially semi-stylised. White doors in white walls open on to a scarlet backing. The garden is starkly stylised, a huge blossom-laden bough casting its shadow over the inescapable, enclosing walls. The last scene sees old Firs dozing off against a large doll's house as the mottled images of the cherry orchard are cast like stencils on the nursery walls.

Child-like people lived here once, led by Judi Dench as Ranyevskaya. Dame Judi avoids the traps of making her too selfish or, more insidiously, too lovable. Her contagious bubbling, her bossy, throwaway humour can freeze into something harder. Her reunion with eternal student Petya is marked by genuine distaste and anger at his scruffiness. At the realisation that Lopakhin has, after everything, still not proposed to the wretched Varya, her face is set and cold. The shutter comes down.

As yet the production lacks depth, an impression underlined by a first night audience intent on screaming with laughter at every possible joke. Michael Gough shares the blame for making Firs into a smooth-spoken, superannuated Jeeves rather than a peasant born into serfdom. Nicholas Farrell's intelligent, vigorous Trofimov was presumably directed to scratch his bottom in the eternal idealist's vision of society marching towards the light; this merely reminds us how touching the speech can – surely should – be, with its glimpse of awfulness to come and the humble hope of "either getting there. . . or showing others the way." Similarly, Kate Duchêne gives us a German governess eccentric to the point of caricature, excellent by its own lights, but without that terrible tragic wistfulness Julie Legrand brought to this utterly isolated and probably unemployable woman at the National some years ago.

Bernard Hill's Lopakhin will surely deepen. The bluff outline is there: exasperated affection for the old order, the pride of the self-made man who supplants it. At the moment it is all fairly one-dimensional. Ronald Pickup's Gayev is his sister's equal, which is considerable. The English Shakespeare Company's Hal and Falstaff are predictably incisive as the supercilious footman (John Dougall) and oddly Micawberlike Simeonov-Pischik (Barry Stanton). Lesley Manville sums up the production: heart-touching (and quieting the bronchial house) in Varya's rejection, not quite in focus elsewhere. The Anya is perfunctory and mechanical.

Martin Hoyle

CINEMA

History-making v. make-believe

LIFE AND NOTHING ELSE (PG)
Renoir and Chelsea Cinemas

THE RACHEL PAPERS (15)
Cannons West End

LIFE IS A LONG QUIET RIVER (15)
Screen On The Hill

Sabine Azéma as the snooty widow Irene in "Life And Nothing But"

Bertrand Tavernier's *Life And Nothing But* is an act of heroic vandalism. As the calendar closes on a year of French Revolution junketing, mindless even by most bicentenary standards, here is a film that sets explosives to all the plaster-of-Paris monuments to national pride and national belligerence.

Tavernier's movie is not about the French Revolution but about the First World War and its aftermath: the story of a French Major (Philippe Noiret) sifting through tha human wreckage of Verdun in 1920. But the moral resonances span the centuries.

The film reminds us that, though great upheavals may be ennobled decades later by flag-waving and fireworks, they begin in violence, pain, horror and mutilation. Not to mention complete confusion (often) as to why the battle is being fought in the first place.

Life And Nothing But may be the greatest French film about war since *La Grande Illusion*. The great illusion here is the hero's own. He believes the war can be tattooed forever on man's memory by accounting for every killed or wounded soldier, and by not ceasing till the task is completed.

The Major is a gronchy, bearded pachyderm, magnificently played by Noiret in his his men have the job of identifying the dead and missing-in-action. Staring-eyed amnesiacs are propped against a wall and photographed; staring-eyed corpses are labelled and filed away in mortuaries; staring-eyed war widows float through searching for a son, brother, husband or fiance.

Meanwhile, the staring eye of history – manifest (or metaphoric) in the rheumy-eyed sun that gazes down on the bleak Normandy landscapes – watches this vain idealism. And watches, also, the romantic entente, far from "cordiale" at first between Noiret and a beautiful, snooty widow, Irene, (Sabine Azéma) who demands the swift location of her spouse from among the 350,000 French soldiers unaccounted for. "Madame," snaps Noiret time will be devoted to his case. That's all."

This love-hate duel shimmies away on centre screen throughont the film's 2¼ hours. But tha wide screen also includes a whole fresco of warring ideals and witheringly-observed characters: the bumbling officer charged with finding an anonymous French corpse to become the Place de l'Etoile's unknown soldier; the girl whose missing fiance proves "unfaithful" even in death; the soldier who guides a mother and father to their dead son and then faints himself (the parents have to prop him up); the sculptor who rhapsodises about the windfall commissions that the war has brought. "A monument per village!" he cries. "It's the Golden Age, it's the Renaissance!"

For Tavernier and co-writer Jean Cosmos, 1920 is seen as a time when war's tragic truths are turning into the vaudeville lies of peace.

The movie's most bleakly funny scenes – the quest for the unknown soldier through a landscape strewn with stubbornly-identifiable corpses – are at one with Tavernier's mischievous mise-en-scene throughout.

Everywhere, history-making is at war with make-believe. Noiret and his staff have their offices in a maze of wooden cubicles surreally set up in an abandoned theatre. And the baroque posturings of the sculptor's Winged Victory monument ("She looks like a brooding hen," comments Noiret) are art-as-propaganda's attempt to chisel posterity's response to history.

Noiret alone rages against the dying light of knowledge and truth. "We do nothing but shut up!" he cries, as his statistics are spring-cleaned by the ministries, as his tirades against postwar hypocrisy are parried by Mlle Azéma. Even the collapsing rail tunnel into which – on one field operation – Noiret ventures time and again, to snatch the cache of dead or dying soldiers, takes on a poetic power in this movie: as the womb of human memory itself.

Like all Tavernier's best work *(Sunday In The Country, Round Midnight)*, the film is never simple-mindedly partisan. It questions Noiret's fanatical obstinacy as much as Noiret questions the world's capitulation to half-truths. Binding himself to the past, he falters when a loving hand (Azema's) reaches out to him in the present, offering a future. The ultimate tragedy of *Life And Nothing But* is that its hero's loyalty to the dead and dying conscripts him into their company. He, too, is one of the "missing in action". The action he has absented himself from is life itself: a life falteringly, even mendaciously, but compulsively reclaiming the world after war.

★

Take a 1973 novel called *The Rachel Papers*, by Martin Amis. Render its title meaningless by putting on computer the dossier notes kept by the young London-based hero (Dexter Fletcher) on his girlfriend(s). Give the movie a bastard marketability by casting an American (Ione Skye) as the titular girlfriend. (I choose my adjectives carefully). And then add lashings of album-ready rock music and assembly-line soft-sex scenes. Voila! You have *The Rachel Papers* the movie.

Actually you have *The Rachel Papers* the insult to our intelligence. Written, directed and perfunctorily updated by Damian Harris (son of Richard), this is fast-food film-making with a vengeance: facile, flavourless and zero-rated for nutrition. No doubt Mr Harris thinks the film's prevailing air of "Swinging London" redivivus is saleable will be in other countries, whose neighbour-watching clocks always stop at the last social era that made any international impact. (For Britain the late 60s, early 70s.) And no doubt box-office considerations also dictated the use of noted British actors (Jonathan Pryce, Michael Gambon) to flesh out roles (loutish brother-in-law, grumpy Eng. Lit. professor) anorexic in their feebleness.

The chief distinction of the original novel – of all Amis's novels, come to that – is the pyrotechnic prose. Necessarily forfeiting most of that, save the few *bons mots* that can be clothes-pegged to the hero's voice-over narration, the movie is left with a flailing-in-the-wind story about a young sexual go-getter accidentally stumbling upon True Love. We have seen it all before. Indeed, we saw it only last week in *Getting It Right*. *The Rachel Papers* gives us no good reason why we should be seeing it all again.

★

Deja vu strikes again – it is seldom a containable disease – in Etienne Chatiliez's *Life Is A Long Quiet River*. We have oft-times sampled this plot. It is the one about two babies swapped at birth and causing many a mirthful mix-up years later. Mark Twain did it in *The Prince And The Pauper*. Bette Midler and Lily Tomlin did it more recently in *Big Business*.

Here, young Momo discovers he really belongs not to the poor, slobbish family who carry on like refugees from a John Waters film, but to a rich industrialist's household. The latter live on the right side of the tracks and behave with *soigné* dottiness as if in a late Bunuel film. ("C'est Lundi, c'est raviolil" cries Mum). Meanwhile, young Bernadette moves transversely, from riches to rags.

The fun is short-lived and predictable. Chatiliez, a former commercials director, has a keen understanding of human gullibility: not least of the way people are prey to daft received ideas. ("Eat your fish. Phosphorus is good for you!") But the story, after a vivid start, soon starts limping inexplicably, as it has been shot by the starting pistol but is slow to realise it. There is a difference between knowing how to tell a joke and knowing how to develop it. On this showing, Chatiliez's apprenticeship in the world of the short attention span suits him only for the first.

Nigel Andrews

Rent Party

STRATFORD EAST

It must, by now, be one of the truisms of jazz that mean times mean music – hardly surprisingly given its genesis among the poor black communities of the US. One of the meanest was the '30s when, strapped for the wherewithall to pay the rent, tenants made a virtue of the direst necessity by laying on fee-paying parties for all-comers. It is such an obvious peg for a jazz musical that it seems extraordinary no one has latched on to it before.

Alan Plater now takes up Shapiro's cause, with a musical that hangs a couple of dozen fine tunes on the slenderest of hooks, and the result is a party all round. The storyline, such as it is, begins with the arrival of an aristocratic English time traveller in a Harlem tenement, where the writing's on the wall and the hooch is in the bath. Her presence chiefly serves as a device to make relevant points – such as how little things have changed for those on tha wrong side of the credit ratings and the other side of the Atlantic.

Tha rest of the characters are schemed out according to the available musical numbers: there's the bossy female Bible-basher, the tricksy male hustler, and the reluctant beau of an ardent young gal. Refreshingly, in Philip Hedley and Dierdra Lovell's production, there is little to impede the flow of music, which runs from blues through to gospel, the big names (Fats Waller, Louis Armstrong, Billie Holliday) sitting happily beside the smaller ones (notably John Turner, performed by John Turner). All are slickly choreographed, accompanied with a deceptively laid-back professionalism by Colin Purbrook and His Clouds of Joy.

Nuggets of Plater wit stud a show, the main strength of which of which lies in its formidable musical casting. Polly Hemingway, brittle and breezy on her "fact-finding time-warp", makes a neat contrast with the assembled partygoers. Sharon D. Clarke is positively awe-inspiring as the voluminous hot-gospeller, but there is fine work, too, from the sassy Melanie E. Marshall, and from Kofi Missah, whose contribution to the central medley is a gem – more so than either number sung by the star-billed Princess Sapphire (Pearly Gates).

Claire Armitstead

1000 Airplanes on the Roof

SADLER'S WELLS

The latest artefact from the Glass production-line to receive a London display is the "science-fiction music-drama" *1000 Airplanes on the Roof* (1988) – music by Philip Glass, text by David Henry Hwang, design by Jerome Sirlin, performance by the Philip Glass Ensemble.

This is in essence a monodrama, minimally staged, for an actress (Betsy Aldem) accompanied by seven instrumentalists and set amid projections. It is cleverly, indeed expertly realised, slickly finished, wrapped in a fashionable modern-art gloss, and just about the emptiest and most boring 90 minutes I have ever spent in any theatre.

An unbroken 90 minutes: after a crashingly loud instrumental introduction, amplified well beyond the pain threshold, the tale begins. It is told by "M", who intersperses her narration with a deal of weaving about amid the changing projections.

What she unfolds is a string of doomsday-type sci-fi clichés joined up end to end, a combination of confessional psychobabble and classic New York City paranoid fantasy, almost entirely unenlivened by wit, poetic imagination, or skill in the building of dramatic tension.

"M", who in her rural youth had a nasty incident with a beehive, now lives in the Big City and begins to believe herself invaded, and at times abducted, by aliens. In the end she learns to forget her experiences, and after medical examination "is released to return to the rest of the week). Easily the most fascinating part of the experience was the time spent trying to divine what on earth they can possibly get out of it.

I have to confess a serious personal handicap in approaching such artistic invention: a total lack of interest in sci-fi or futurist fantasy of any kind, not to say a deep-seated impatience therewith.

Hwang's text (he is, of course, the author of *M. Butterfly*) is not exactly the vehicle for the overcoming of disadvantages of this sort; and Glass's music, which washes over and around it in endless major and minor triads, ostinato-repetitive, arpeggiated, tootling along in neatly-tooled paragraphs, is the purest aural pap – the scintillating textures of his pre-Big-Time compositions have gone, and nothing now remains to disguise the vacuity of what lies underneath.

There is an audience for this stuff (the company is in residence in Rosebery Avenue for the rest of the week). Easily the most fascinating part of the experience was the time spent trying to divine what on earth they can possibly get out of it.

Max Loppert

Strauss Series

FESTIVAL HALL

A series of concerts focussing on Richard Strauss can hardly do without the human voice. The problem in recent years has been in finding the voice that will fit the bill, since the supply of Strauss sopranos has become decidedly thin on the ground of late. Perhaps it was for that reason the Royal Philharmonic Orchestra on Tuesday turned to an old favourite.

Although the Swedish soprano Elisabeth Söderström has had some notable successes in the Strauss operas in her time, especially at Glyndebourne, she has had to stretch her resources to do so in larger houses. To my mind, the voice has never been a fully-fledged lyric soprano. The sound needs more flesh on it and a more luminous beauty, while in recent years the brittle quality that has always been part of its character has become more pronounced.

At least with Söderström, though, intelligence can always come to help out when the voice alone cannot manage. Her selection of three songs with orchestra, inclnding "Morgen" and "Zueignung", projected with surprising clarity and in the closing scene from *Capriccio* she made the Countess's words for once gain the upper hand over the music. The voice does not soar in the final phrases, but the liveliness of the text just kept it on the wing.

To a large extent she was helped by her chaperone. There are few conductors today who would be as chivalrous in keeping the orchestra down for her as Vladimir Ashkenazy was here (I have heard at least one other drown his soprano in a similar piece and look pained when he was booed for it at the end.) But it was another kind of singer that seemed to be called for to match Ashkenazy, who created an atmosphere of luscious lyricism.

The rich textures that the RPO can command are well suited to Strauss – better than they are, I feel, to Mahler, whose First Symphony followed after the interval. This was a warm and affectionate performance, but other, more important features were missing: a tight grip on symphonic tension, a sharper delineation of Mahlerian sounds and detail.

Richard Fairman

ARTS GUIDE

October 20-26

EXHIBITIONS

London

The Hayward Gallery. Andy Warhol – two years after his death, a comprehensive retrospective of the career of this seminal yet ambiguous and still controversial artist, since he turned to painting from graphic design in the early 1960s.

Paris

Musée des Arts Decoratifs. Je suis le Cahier - Picasso's sketchbooks. After two years of meandering the world over, the exhibition ends, aptly, in Paris. The 40 sketchbooks covering a period of 64 years follow closely Picasso's development. 107, Rue de Rivoli (42603214), closed Tue. Ends December 31.

Musée Rodin. A delightful 18th century townhouse – Hotel Biron – contains the life work of Auguste Rodin, whose powerful genius opened the way for modern sculpture. In the gardens his Thinker broods, the Burghers of Calais trudge to their tragic destiny and Balzac, draped in his cloak, defies time. 77, rue de Varenne. Closed Tue.

Brussels

Sotheby's. Japanese Works of Arts and Prints. 32 rue Jordaens. Daily, ends October 27.
Bibliothèque Royale Albert 1er. 2 Boulevard de l'Empereur. 50 years of Architecture (1939-89). Daily ends November 10.

Madrid

Fundacion Juan March. Retrospective of Edward Hopper opens theautumn season at the foundation. 61 works by the New York realist covering a period of 56 years. Until Jan 4.
Fundacion Caja de Pensiones. Arshile Gorky. Excellent chance tosee a selective exhibition of this Armenian-born US painterin Europe. Gorky is considered a vital link between modern European art and American abstract expressionism. Closed Tuesdays. Ends Dec 23.

Barcelona

Fundacion Caja de Pensiones. International art. Exhibition of contemporary art from the museum's holdings acquired since1985, including works by Forg, Huber, Mucha, Deacon, Kiefer, Polke, Cucchi and Merz. Closed Mon.

Bonn

Beethovenhalle Bonn. 50 portraits of Beethoven by the American pop artist Andy Warhol. In addition to the Bonn Beethovenfest, an Andy Warhol exhibition is taking place until October 1.The Bonn gallery owner Hermann Wuensche commissioned these Beethoven portraits from Andy Warhol for Bonn's 2,000th anniversary. After a year of intensive study of Beethoven, he completed a series of coloured graphic works before he died last year. They are based on the 1821 original, by K.J. Stieler, showing the composer aged 48.

Berlin

Bruecke Museum, Bussardsteig 9. A Franz Marc retrospective with 180 drawings and aquarelles (1880-1916) most of the German expressionist painter's works, can be seen for the first time until Oct. 29. His famous hand-coloured print of two horses, one blue coloured the other red-black, with a red, blue, yellow and green ground, was published in a luxury edition of the almanac Der blaue Reiter.

Vienna

Secession. The highlight of the next few weeks will be the 100th anniversary of the birth of Ludwig Wittgenstein, the philosopher, architect and craftsman who until recently had not been appreciated by his fellow countrymen. The indomitable staff at the Secession, the wonderfully renovated gallery where Vienna's radical and anti-establishment artists set up their workshop at the turn of the century, finally raised the funds to organise this long overdue exhibition. Ends October 29 and not to be missed.

Rome

Palazzo dei Conservatori, Campidoglio. Giuseppe Ceracchi (1751-1801), Jacobin sculptor. The exhibition includes a touchingeye-witness sketch of Ceracchi and co-conspirators in e plotto assassinate Napoleon standing at the foot of the steps tothe guillotine. Ceracchi had refused a last-minute pardonoffered by the Emperor, feeling that Napoleon, of whom two remarkable portrait-busts are included in the exhibition, had betrayed the revolution. Also on show are portraits of Joshua Reynolds, whom he met in England in 1779, lent by the Royal Academy in London, of George Washington from the Metropolitan and three exquisite preparatory drawings for the Van der Capellen monument from The Hague. Until Nov 12.

Venice

Palazzo Grassi. Italian Art: 1900-1945. A much-amplified exhibition covering a briefer period than did the recent show at the Royal Academy in London, organised again by German Celant, with the director of Palazzo Grassi, Pontus Hulten. An attempt is made to put the works into a clear political and social context, emphasising links with contemporary literature, music and cinema. The exhibition ends with two blown-up stills from films by Visconti and Rossellini. Ends Nov.

New York

Whitney Museum. A special exhibit from the museum's extensive holdings of Edward Hopper highlight the realistic painter's Paris and domestic scenes among the 150 pieces in all media. Ends Nov 5.

Washington

National Gallery. A major international collaboration showing the major works of Frans Hals outside the Netherlands for the first time starts here with more than 60 paintings; next year it travels to the Royal Academy in London and the Frans Hals museum in Holland. Ends Dec 3.

Chicago

Art Institute. Fixing the Shadow shadows the history of photography at its 150th anniversary. Of the millions of possible contributions, the exhibit focuses on 400 pieces by 200 photographers organised chronologically. Ends November 16.

Tokyo

National Museum. Art of the Muromachi Period (1334-1537). Major exhibition featuring some 400 works from the period when the shoguns had consolidated their power, bringing a period of relative peace and prosperity with e resultant flowering of the arts, much of it influenced by Zen Buddhism, such as ink painting, garden design and the tea ceremony. Closed Mondays.

The Accountancy column and Appointments advertising will appear on

Friday 27th October

SALEROOM

Mid-season delights

Just becanse the best Impressionist and post-Impressionist paintings sell for many millions, there is no reason why you should not own a minor work by a great artist, or an excellent picture by a more anonymous worker in the genre. Sotheby's mid-season (pseudonym for second division) auction of Impressionist works of art yesterday brought in £3.4m, from the morning session alone (the target for the day), with 10 per cent unsold.

"Nature morte", by Bernard Buffert, tripled its estimate at £115,500, and a Japanese buyer paid £104,500 for a similar work by the same artist. *"Marché aux fleurs"*, by Takanori Oguiss, also did well at £93,500, while another Japanese buyer bid yet another Buffet, *"Papillon"*, up to £88,000.

A dazzling portrait of the Princess de Broglie, painted by Tissot in pastels near the end of his life in 1895, and epitomising the decadent Parisian Society of that decade. sold for £634,981 at Sotheby's in New York on Tuesday. It was a highlight of an auction of 19th century European art which totalled $19.3m (£12m), a record for this sector in New York.

Top price was the £1.7m paid for *"Le Poète et La Sirène"*, by Gustave Moreau. It depicts a symbolic struggle between Man, pictured as a sleeping poet, and Nature, represented by an androgynous Siren. Spanish buyers, now a force in the market, were active: two works by Sorolla y Bastida, of Valencia beach and a Segovian family, sold for £424,657 and £479,452 (donble estimate) respectively to the same buyer.

Koopman, the silver dealer, was an active buyer at Christie's sale in London yesterday. He paid £137,500, comfortably above estimate, for a pair of George III two- handled, oval soup tureens, covers, and stands, made by Thomas Pitts in 1772, and bearing the Seymour arms; and £45,100 for the Ascot Gold Cup of 1901. The race was won by the odds on favourite Santoi and the cup, 25½ inches high, was made by Sebastian Garrard.

A pair of George IV two-handled campana-shaped wine coolers by John Bridge made £33,000, and a set of 12 George IV circular dinner plates by Paul Storr, £24,200. The sale totalled £896,808, with 15 per cent unsold.

Travel and natural history books at Christie's turned in £749,485, with only 5 per cent unsold. Thornton's *"The Temple of Flora, or Garden of Nature"*, a first edition of 1799, was within target at £62,700, while John Gould's *"The Birds of Great Britain"* sold for £37,400.

Antony Thorncroft

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Thursday October 26 1989

Russia's turn to speak

RUSSIA WAS the last to speak. Every other one of the 15 Soviet republics has produced movements for autonomy, for cultural awakening and for the preservation of language. Until last weekend, Russia was silent. Why should it have been otherwise? Dominant over all the other republics, it runs the show. Its language is the Soviet language, its party, which began life as the *Russian* Social Democratic Party (Bolshevik), became the Communist Party of the Soviet Union. For many, the USSR *was* Russia writ large.

But this was not how many Russians saw it. As other cultures and languages were nurtured and encouraged under the Soviet system, Russian culture suffered. As the backward economies of Central Asia were raised up, so the wealth of Russia (and of other republics) was used to equalise. The Russian religion was squashed. None of this mattered much while Soviet (Russian) rule was absolute and the Russians spread across the Soviet Union. Now it matters. The other republics, some faster than others, are noisily rediscovering their own buried nationalisms – a process which often means voicing suppressed dislike of the Russians and even adopting measures to discriminate against them.

Political pluralism

Russian nationalism came out last weekend on the streets of Yaroslavl – it was not incidental that the town is a religious centre – to say enough. The participating groups spanned a spectrum from nationalists who want to reassert the Russian identity, to the Democratic Union which wants the disintegration of the Soviet empire. Yet they agreed on a platform which included political pluralism, a decentralisation of political power, an end to the Communists' leading role and an independent judiciary. In Russia, as elsewhere, the demand for autonomy is expressed in terms of demands for democracy.

Two fixatives held the Soviet Union together: the Communist Party and economic planning. Now, the republican Communist Parties hasten to make common cause with the nationalist movements. The Supreme Soviet, in abolishing on Tuesday the reserved seats for the Communist Party and other CP-dominated groups, has taken a further step towards the possibility of a *de facto* pluralism in forthcoming elections.

Central planning remains. The proposals for devolving economic power to the republics, approved last month by the central committee, are very gradualist indeed. Republican agitation will focus increasingly on demands for a much greater loosening of these bonds than Moscow now envisages. That agitation will become more powerful as the popular fronts gain representations, almost certainly majority representations, in the republics' supreme soviets when their elections are held.

Loose confederation

Mr Mikhail Gorbachev must go with the flow, as he has until recently sought to do. Stability cannot be achieved on any basis other than the loosest confederation possible – one in which the political and economic rights conferred on the republics are much more substantial than those so far mooted. If he does not draw the boundaries very wide, he will sooner or later be forced to defend a narrow line by force.

That, in turn, entails two further enormous shifts. Relations between the republics – which are economically bound together and will remain so for the foreseeable future – must be on the basis of the market, not of a Plan. Only then can the enervating struggle of the peripheries with the centre, and with each other, be transformed into co-operation. Second, the leadership must be prepared for the emergence of a party system, one initially based on the popular fronts (which are themselves as politically diverse as Poland's Solidarity) but which increasingly encompass the different informal groups now pursuing many different political lines.

The Communist Party and the Plan held the union together by force and by ideology. To avoid an explosion which would set back the cause of freedom, the Soviet Union can remain a union only by free economic relations, and democracy.

The dilemmas in public sector pay

THE INDUSTRIAL dispute that has erupted in Britain's ambulance service, and this week immobilised many ambulances in London, has again illustrated the incoherence of the Government's approach to public sector pay. On this subject, ministers act as if they were a branch of the emergency services, intervening only in response to disaster.

The ambulance dispute is the result of pay settlements over the past three years which have eroded a previous parity between the pay of ambulance crews and firefighters with five years' experience. Firefighters' pay has been linked to rises in the earnings of male manual workers, while ambulance workers have to take their chances in one of the National Health Service pay negotiating councils.

The Government has administered a covert form of pay restraint through these Whitley Councils. Although negotiations are between health service managers and unions, financial pressure forces them to settle within cash limits decided by the Government in its annual allocation to the National Health Service. Consequently, ambulance workers' pay has been steadily depressed.

The 6.5 per cent pay offer made to the 22,500 ambulance workers compares with the 9.25 per cent received by police in September, and the likely award of more than 9 per cent to firefighters next month. The average rise in adult earnings in the year to April was 9.8 per cent. The railway and local government workers who struck this summer received at least 8.8 per cent.

Public popularity

If these different awards reflected market factors, including the ability to attract and retain staff, they would have some justification. Instead, the degree to which workers are favoured has depended on a curious amalgam of their popularity with the public and their ability to cause trouble. Thought is now being given to neutralising the second factor by restricting strikes in essential services.

Such a move implies that essential services have a special status. It is then a short step to agreeing that such services should be covered by a stable form of pay determination, such as the police's indexation formula, the firefighters' link to comparable workers, or the nurses' pay review body. In practice, it will be impossible to deprive workers of the strike weapon without such a guarantee.

Comparable work

For ambulance crews to be included in this category of protected workers, it would have to be established that they are comparable to firefighters and police. At the moment, their work only partly involves provision of an emergency service, with the skills and training that this requires. A large proportion of their time is spent simply ferrying non-emergency cases to and from hospitals, hostels and old people's homes.

Only the emergency portion of their jobs is comparable to the work of police and firefighters. The rest bears more resemblance to the porters in hospitals, whose pay falls under another Whitley council and who have fared no better in the past few years. Some health authorities have recognised this, and are moving towards a "two-tier" ambulance service, split between para-medical staff and people who fetch and carry patients.

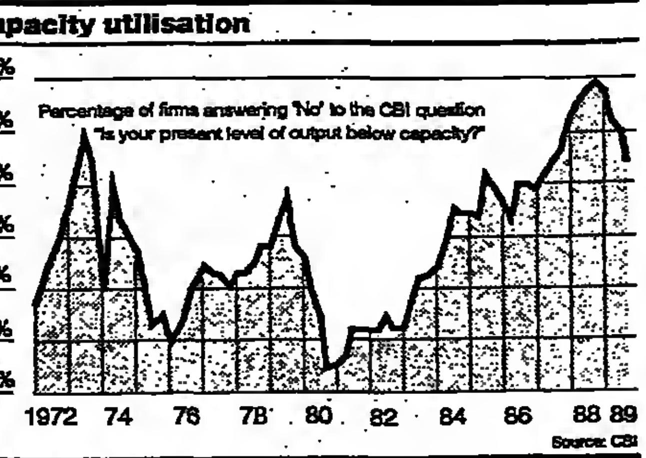
The ambulance unions are right to argue that the public would benefit from improved training of some ambulance staff in para-medical roles. They also have a strong case in their claim that such staff deserve the pay protection afforded to other emergency services. But there are two corollaries. One is that the second tier of ambulance workers would be paid less. The second is that the para-medical crews should undertake not to strike in return for better pay.

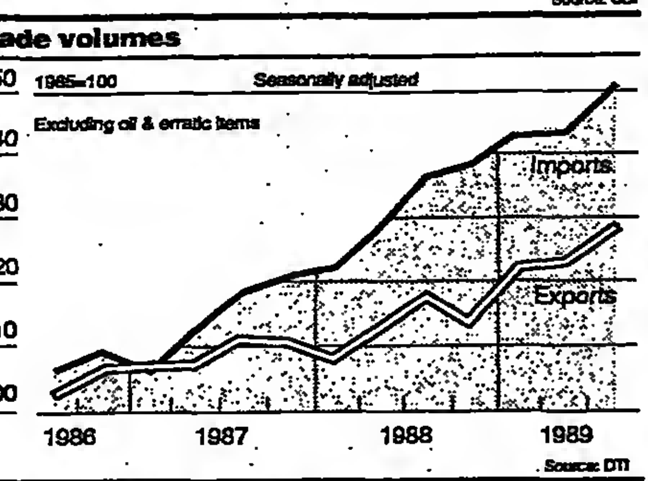
These changes would not eliminate the inconsistencies of public sector pay determination. But they would show that the Government was applying its mind rationally to the more limited, but essential task of preventing disruptions to emergency services. Having people ferried to hospitals in police vans, as happened earlier this week, is no way to run a vital service.

ECONOMIC VIEWPOINT

A time to 'buck up'

By Samuel Brittan





I once had a distant relation whose early years were formed by medical and rabbinical studies, but who later acquired on the golf course an unexpected command of English colloquial expressions, all expressed in a rich Lithuanian-Jewish accent. He was fond, in particular, of urging his friends to "buck up" on suitable and unsuitable occasions alike.

We could do with this doctor *today*. For *"buck up" is what* most of the people who discuss the British economy need to do, at all levels. For instance, one normally sensible reporter has written that business confidence has "collapsed" and manufacturers are preparing another round of job cuts.

Such headlines were occasioned by the CBI Quarterly Trends Survey, which – properly interpreted – is immensely more enlightening than the piece of faction (television jargon for a mixture of fact and fiction) known as the trade figures.

One would not guess from recent headlines that total employment is still rising, and that the prevailing condition in the British labour market has been that of increasing labour *shortage*. *However often one* is told that it is a lagging indicator, one cannot but be impressed by the 30,000-40,000 monthly drop in unemployment throughout 1989.

It is also worth recalling that the initial estimate of first quarter UK gross domestic product showed a small fall, which misled policymakers. By the July revision this fall had become an increase of over 1 per cent at an annual rate. David Smith of W de Broe reminds us that between July and September the first quarter growth rate has been further revised upwards to 2.9 per cent. For private investment, including stocks, the upward revision has been from 13 per cent to 24 per cent. This is good for future supply performance, but *yet one more sign* that demand pressures were underestimated and that any shake-out starts from a very high pressure economy.

Of course 15 per cent interest rates cannot continue indefinitely without producing *recessionary symptoms*. But they have already been falsely predicted for nearly a year and resulting fears of overkill stopped interest rates being raised high enough early enough.

The best sign that the squeeze is starting to work is the shake-out reported by the CBI

Meanwhile the moderate shake-out shown by the CBI survey is the best possible sign that the Chancellor's squeeze is at last beginning to work. The total order book is historically *low and* promises some real shakedown to come.

Business cannot be expected to enjoy seeing its home market or profit margins eroded and having to seek its markets internationally, even though world economic conditions are buoyant. But export optimism has fallen off much less than optimism in general.

The most important sign is given by the CBI's questions on capacity utilisation, one of which is plotted on the chart. This shows a big reduction in utilisation (58 per cent to 54 per cent) compared with the 1988 peak. *Capacity pressures* are no longer higher than in the Heath-Barber boom. But they are still more severe than in the previous Callaghan peak of 1979, which was also associated with inflation.

The most likely cause of a hard *landing is that* stocks are now abnormally high in relation to GDP, and the adjustment to a normal ratio could lead to a quarter or two when growth is not far from zero.

The most depressing CBI answers relate, however, to *costs and prices, expected to* rise by a balance of 30 per cent – showing very little change during 1989. The cost and price pressures are hardly surprising when the squeeze has still to hit the labour market.

Above all the home-provoked *weakening of sterling has* postponed the pressure on profit margins and permitted insufficiently selective pay settlements. Nevertheless, we should not be too far from the turning point if the Government can convince the markets *that it really does have a floor* for sterling.

But even on costs we can exaggerate. The growth of wages per unit of output in British manufacturing has been 3 per cent on the official estimate compared with West Germany's 1 per cent. Although UK productivity gains are likely to come down as the economy slows, German cost pressures are on the rise.

As for the trade figures, I am much less worried about them than about the mood of gloom that has settled over Whitehall because its balance of payments forecasts have again proved wrong. So confident were some officials that they tried to eliminate the Chancellor's prudential observation – that the trade gap would be the last indicator to improve – *from the standard briefing*.

According to the so-called summary of the current account at the head of the trade figures press release, the UK has had a current account deficit of £15.6bn in the first nine months of 1989. Allowing *for erratically low oil production*, this amounts to an annual rate of about £20bn. But the Central Statistical Office culpably fails to include the favourable "balancing item" amounting to £12bn per annum of unrecorded receipts – *thus* burying everyone else in its own black hole.

The volume of non-oil exports excluding erratics (which intelligent teenagers look at) has risen by 4¾ per cent between the first and third quarter's exports; the volume of non-oil imports has risen by some 5¼ per cent. These trends are not quite enough to *stabilise* the current balance, but not far from it.

The earlier over-optimistic expectations should be depressing mainly to the forecasting fraternity. Treasury economists should reread the official speeches, which they help to write, explaining why the current account deficit is not a good measure of economic health, and why sterling depreciation is not a good response.

Even at this late date the Chancellor should add a health *warning to the forecasts which appear in the Autumn Statement*, stating that he is merely carrying out his Industry Act obligation to publish, that is more or less disowning them. He should remember Friedrich Hayek's saying that the only *advice that economists could* give was about principles. (Although he had known some economists who had made a fortune selling forecasts, he had known hardly any who did so by acting on them).

My own guesses, which are not worse than those of the professionals, are:

- There will be more shock trade figures for individual months, but
- There will be a big narrowing of the current deficit by some time in 1990 under the influence of destocking, when public attention has switched to recession and overkill.
- The deficit will, however, rise again in the early 1990s before stabilising in absolute terms and then declining very gradually as a proportion of national income, as has happened in the US.

The Government's key condition for fully joining the European Monetary System is that Britain's inflation gap with other EMS members should narrow. An increasing annual deficit matters because it is a sign of suppressed inflationary pressure – spending deflected to imports or exportables. As the deficit levels off, the familiar figure of the retail prices index minus mortgage interest becomes a better measure of underlying inflation.

A time will come – sooner than the Chancellor indicated – when British interest rates will be too high for domestic *purposes*, but a cut *would threaten sterling*. It would then be appropriate to lock sterling in with the D-Mark. British interest rates would still need to be several percentage points higher than German ones until credibility was established. But *there would be some prospect* of reducing the present differential and of convergence in the very much longer run.

But it is unwise to wait so long. We should join the EMS very soon with a 6 per cent margin like Italy and Spain, *and use the expression "when* the time is ripe" *for* the moment of narrowing the margin to the normal 2¼ per cent.

Mr Lawson should add a health warning to the forecasts, more or less disowning them

BOOK REVIEW

The changing face of Japan

THE SUN ALSO SETS
Why Japan will not be Number One
by Bill Emmott
Simon and Schuster. £14.95

Bill Emmott won a prize last year for an essay putting forward the startling argument that Japan's current account surpluses might disappear as early as 1995. Thus the country would not go on to be an enduring economic or financial super power. This book developed from that essay.

In many cases of this type, the book turns out to be less good value than the essay or article on which it is based because the argument tends to *lose sharpness* or even become obscured by the additional detail. Certainly, the argument becomes diffuse in Emmott's book, but most of the new material more than makes up for that. Indeed, the book's arrival is most timely, providing the first serious response to the so-called revisionist view of how Japan works, a view that has become extremely – some would say dangerously – popular in political and intellectual circles in the US.

According to the revisionist view, Japan is a unique and basically immutable society controlled by a cabal of bureaucrats and business leaders who force ordinary Japanese into lives of regimented drudgery in the service of ever higher and better output. It is largely insensitive to market forces in general and is inherently hostile to imports. Therefore, the US and other trade partners must take a harder line in dealings with it.

As Japan has achieved massive trade and current account surpluses for the past four years despite a big revaluation of the yen in 1985-86, this analysis has its beguiling elements, and few would dispute that it provides a largely accurate description of how Japan once was. However, the problem that policymakers and commentators face today is assessing how much and how quickly the country is evolving, if at all, from this structure. Emmott moves bravely into this challenging territory.

Ironically, the revisionist view came as a special challenge to Emmott's thesis. He believes that a surge in consumer spending will soon combine with the inevitable demands of an ageing society to depress the country's high savings rate. That will slow the *outflow of investment capital* while the rapid growth of overseas tourism will exacerbate the invisibles deficit. As a result, the current account surplus will soon move into sharp decline, even if a trade surplus remains.

If the current account surplus is to weaken in the way he suggests, then the Japanese will have to stop being workaholics and oversavers. Emmott, who was Tokyo correspondent for The Economist between 1983-86, claims that social and economic patterns are changing, and he provides lots of data and common-sense analysis to back up his view.

For example, the emergence of a class of nouveaux riches suggests that even ordinary Japanese are likely to become enthusiastic consumers. "By leading a fancier and more visibly opulent life, the new rich are setting an example to the millions who have only moderate wealth. The effect of their riches is trickling down, affecting what people spend, why they buy and what they aspire to. The old, austere homogeneity of Japanese life is breaking down."

Despite his optimism, Emmott does not fall into the same trap as many western analysts who assume when they see hamburgers in Tokyo that Japan is well on the way to becoming just like America. "All this will take time to penetrate the layers of Japanese conformity. The change will be marginal rather than fundamental, but will be genuine. It will not suddenly make the Japanese more like Americans, but it will make them less like earlier Japanese," he concludes.

His own thesis thus protected, the book drifts away from its central theme and becomes a collection of sensible and well documented Economist-style schools briefs on such timely topics as the liberalisation of the Japanese financial system, the possibility of Japan heading a yen bloc in Asia and the significance of Japanese industrial expansion around the world.

Emmott then takes on the revisionist thesis as a whole. He acknowledges that the Japanese economy does not work on the pure free market model, but claims that market forces do manage ultimately to overcome a plethora of controls, cartels and conspiracies. Thus, it would be wrong to approach the country as if its economy was different in kind from that of western countries. Also, he claims, Japan's protectionist instinct is weakening now that exports can no longer be relied on for economic growth. Many readers will hope he is right *but will remain sceptical until* they see the proof.

Similarly with his overall forecast for Japan, which depends heavily on a big drop in the savings rate as the age profile of the society advances. So far, evidence suggests that *Japanese people are proving* reluctant to spend their savings when they become old. Emmott acknowledges that the timing of the decline is uncertain, but that is not much comfort for those who worry that Japan's surpluses are too large to be sustainable for much longer.

Ian Rodger

Next man in please

■ John Major, whose own swift elevation to the post of Foreign Secretary suggested that the Mistress of Downing Street *was giving some* thought to career planning, ought to cast a critical eye on the way it is not being done in the Foreign Office.

Sir Derek Thomas, Britain's Ambassador to Rome, retires at the end of this week after barely two years at the post and he will be succeeded by Sir Stephen Egerton who will enjoy only a few months longer than this, before he too turns 60.

Rotating Ambassadors at almost the same rate that Italy changes governments tends to confirm the Italians' belief that Britain does not take them seriously. Worse, it cannot make for the most effective representation of British interests since both the language and the country are impossible to learn properly inside two years. Sir Stephen is an Arabist and like his predecessor has had no previous experience of Italy. While there is no reason why Rome should not be a pre-retirement post for distinguished diplomats, better that it should go to those who have acquired knowledge and contacts there, earlier in their careers.

That said, no one could have done more than Sir Derek inside two years in seeking to advance British commercial *and political interests. Neither* has been easy given the feelings of suspicion and unease with which many British businessmen approach Italy, and the lack of sympathy in Rome for every dot and comma of Mrs Thatcher's European policy.

Revenge

■ The tenacity with which Sir James Goldsmith can pursue his takeover targets has been proven in the past. But as the lengthy battle between Hoylake - the consortium headed by Sir James, Mr Jacob Rothschild and Australian tycoon, Mr Kerry Packer - grinds everonwards, gossip suggests that other motives may be also be at play.

It has been a little-publicised fact that Eagle Star, one of BAT's UK-based insurance subsidiaries and due to remain part of the group once the internally-generated restructuring has taken place, holds a 15 per cent stake in Rothschild Continuation Holdings, the Swiss holding company for N. M. Rothschild, the UK merchant bank. And it was N. M. Rothschild which became the subject of the famous family feud between Evelyn de Rothschild, its current chairman, and Jacob Rothschild in the seventies - a battle which the latter lost. Oh, sweet revenge....

OBSERVER

"Alan – I need advice on who to be rude to"

Young men

■ Globe-trotting bankers will have to make some amendments to their address books, and perhaps begin to rethink their debt negotiating strategies, following the arrival over the last week of some new faces at the top of the Algerian and Moroccan central banks.

Of the two changes, the replacement of Mr Ahmed Bennani by Mr Mohamed Sekkat *as governor of* Bank al Maghrib, Morocco's central bank, has left diplomatic observers most puzzled. Mr Bennani had been governor since 1985, and in effective charge of the bank for 15 years. Every inch a central banker, he had played a useful though discreet role in the restructuring of the Moroccan economy launched under the aegis of the IMF and the World Bank in 1980. Mr Sekkat, who has held the post of Director of the Budget and Secretary of State for European Community Affairs, is typical of the up-and-coming generation of bright, Moroccan technocrats.

Next door in Algeria, Mr Abderrahmane Roustimi Hadj Nacer last week replaced Mr Nouioua at the Banque d'Algérie at a moment when Algeria is going through a radical process of economic and political liberalisation. In his early 40s, Mr Hadj Nacer hails from the city of Gardhaia in the M'zab region, home of some of the country's keenest traders. It could be a signal that the country's bureaucratic financial system may be becoming more market orientated.

Tough talk

■ If you liked Tom Wolfe's The Bonfire of the Vanities, you are going to have to read the non-fiction version, Liar's Poker. It is ebout life inside Salomon Brothers, as seen through the eyes of Michael Lewis, a former bond salesman whose bonus alone was $225,000 in his second year of employment. Salomon, incidentally, is the giant Wall Street broker, whose chief executive once commented that to succeed as a trader in his firm, a person had to wake up each morning "ready to bite the ass off a bear."

I particularly liked the part where Lewis and the wife of a Salomon managing director were trying to catch a glimpse of the Queen Mother at a reception at St James's Palace in 1984. There are a number of waye to grab the attention of royalty in the presence of 800 silent agents of the Prudential, but the surest way is to shout, which is what the Salomon wife did.

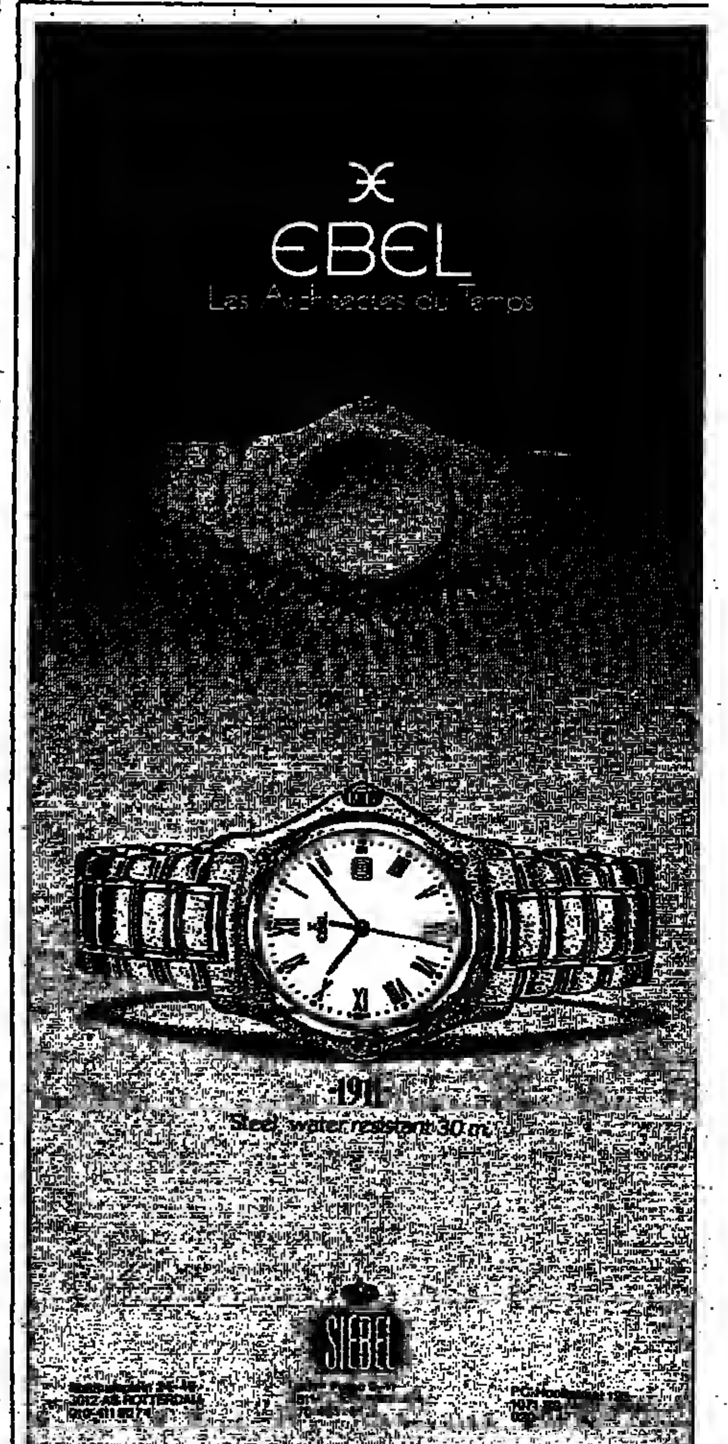
"Hey, Queen, nice dogs you have there", was the cry. The Queen Mother gracefully dealt with the embarrassing situation by ignoring it. However, Lewis was impressed and felt sure that this forceful lady could persuade her husband to give him a job. The interviews seemed to go well but no job offer arrived. He consulted a colleague, who noted that Salomon never liked to be turned down. Consequently, it never made job offers, only job hints. The best thing to do was ring up and take the job. He did.

If you cannot afford £12.95, or wait until it is published in the UK on November 16th, the October issue of Business magazine contains some of the more interesting extracts.

Impolite

■ A message from the management of Belize's luxury Fort George Hotel. "It would be comforting for you to know that we have strong rules about 'pick ups'. Our disposition of cooperation and assistance for all guests at all times is subjected to an exception with any guest who takes someone to the room that he/she didn't know half an hour ago, and won't want to know tomorrow morning". You better Belize it.

William Hall



Kevin Brown examines the budgetary and other dilemmas which have fallen to Cecil Parkinson

No transport of delight

Almost to the day he was replaced in the summer reshuffle, Mr Paul Channon successfully cultivated an image as the first Transport Secretary for years who was able to "get things done."

But as Mr Channon adjusts to life on the back benches, it is becoming clear that there was little substance to the flurry of announcements from the Transport Department's Marsham Street headquarters during his incumbency.

Mr Cecil Parkinson, who took over at Transport fresh from wrestling with the problems of electricity privatisation, has discovered what some observers suspected all along – there is not enough money in the kitty to pay for Mr Channon's expensive proposals.

This perhaps explains Mr Parkinson's lacklustre speech at the recent Conservative Party conference in Blackpool, where he was unable to announce progress on any of the major issues left unsettled by Mr Channon.

The challenges Mr Parkinson faces are formidable

● **British Rail.** Mr Channon won prolonged applause at last year's Conservative conference when he announced that the Government was considering four ways to privatise BR.

The initiative came from two free market think tanks, the Adam Smith Institute and the Centre for Policy Studies, which put forward mutually incompatible proposals for achieving maximum competition by breaking up the railway. The other two proposals, made by railway executives, were to privatise BR as a single going concern, or to sell its five business sectors separately, beginning with InterCity, the flagship express service.

But a series of consultants' reports has shown that breaking up the railway is not a viable option. Even worse, BR's balance sheet would need substantial massaging before the railway could be sold even in one piece. For example, BR's return on assets meets Government requirements, but only because it is inflated by the omission from the balance sheet of assets such as bridges and tunnels. It was in the light of these reports that Mr Parkinson gloomily admitted to journalists in Blackpool that privatisation was not at the top of his list of priorities.

The difficulties over privatisation are linked to the problem of how to replace Sir Robert Reid, the present BR chairman, when he retires next March. Sir Robert has moved BR into profit after taking account of around £800m per year in subsidies, and largely succeeded in moving towards e more market-led epproach. But the rapport between Sir Robert and the Department of Transport broke down in the summer, when BR ran into serious industrial trouble after being forced by the Department to make e pay offer to manual workers which it had warned would be unacceptably low.

When it became clear that public opinion was on the side of the unions, Mr Channon deflected criticism away from the Government by privately blaming the incompetence of BR management, and letting it be known that a tough industrialist would be brought in to shake up the railway. Unfortunately for Mr Parkinson, the headhunters appointed to find a suitable candidate are having little success – not least because of fears about government interference of the kind that undermined Sir Robert's position.

The job has been rejected by both tha leading candidates, Mr David Simon, a managing director of British Petroleum, and Sir Peter Thompson, chairman of NFC, the privatised former road haulage arm of BR.

● **The Channel Tunnel project.** The Government is not directly involved in the difficulties faced by Eurotunnel, the Anglo-French Channel Tunnel consortium, in financing an increase of around £2bn in construction and equipment costs. Bnt ministers are involved in proposals for a high speed railway from London to the tunnel. Mr Channon asked BR to draw up a route for the line, and to evaluate private sector proposals. However, opposition to BR's route from residents in Kent and south London was so intense that tha Government forced BR to put two thirds of the route below ground level.

Together with other factors, that decision has increased the estimated cost of the project from an initial £1.7bn to between £3bn and £3.5bn, plus over £1bn for rolling stock and track improvements. Neither of the private sector consortia interested in the project is prepared to go ahead without a Government subsidy of around £1bn, or radical cost cutting measures, such as ending the line at Swanley, on the south-east edge of London.

A third consortium led by Manufacturers Hanover Trust is working on plans for e different route, bnt its proposals cannot be produced in time to meet the Government's timetable, which requires a private Bill authorising the project to be tabled in mid-November. Mr Parkinson will soon have to make an unpalatable decision to ask the Treasury for the money, allow a year's delay, emasculate the project to save money, or play Mr Micawber by tabling a vaguely-worded Bill and hoping something turns up. The BR board will decide which option to recommend on November 2.

● **London.** After years of decline, the population of London unexpectedly began to grow again in 1982, although the full impact on road and Underground congestion did not become obvious until last year. Mr Channon's answer was the Central London Rail Study, closely followed by the East London Rail Study when it became clear that the problems of the two areas were inextricably linked.

The first study came up with a £2.5bn proposal for two new underground BR lines running north-south and east-west, providing new through routes across the capital. The proposal was endorsed with some fanfare by Mr Channon, although he was unable to secure a Treasury commitment to finance it. The second study concluded that London Underground's Jubilee Line would have to be extended at a cost of around £1bn to serve the office developments in Docklands.

Mr Parkinson's problem is that the Treasury is unwilling to finance both projects. Transport Department officials say the Jubilee Line is certain to be chosen because Docklands developers are willing to make a contribution to its costs.

A difficult decision is also looming on the London Road Assessment Studies, commissioned several years ago to identify ways of easing road congestion. Interim reports included dozens of "options" for road building. The consultants' final reports have been repeatedly delayed after angry public protests. Both Mr Channon and Mr Parkinson have been forced to guarantee that no inner-London motorways will be built, but that does not rule out dual carriageways. The Government is expected to pnblish the final reports, together with its response, next month.

● **Road building.** Mr Channon's white paper, Roads for Prosperity, published in April, won him the support of the roads lobby. It called for a doubling of the roads programme to £12bn. But Mr Channon was able to secure only a tentative deal with the Treasury on funding for the first three years. Now the Treasury, faced with spiralling demands from other spending ministries, is trying to reduce even that. Mr Channon also put great faith in the ability of the private sector to fund new roads, but a recent report from Touche Ross, the accountants, confirms earlier indications that the high risks of such projects are likely to minimise tha availability of private financing.

In addition to these problems, the roads programme does not fit well with the Conservative Party's new Green image. The proposals recently provoked a protest from an alliance of nine "green" organisations ranging from Friends of the Earth to the Council for the Protection of Rural England, which claimed the programme was incompatible with Government promises to tackle global warming and protect the countryside. The Treasury, never likely to miss an opportunity to restrain spending, has already seen the potential of this argument.

In the short term, it will probably fall to the "Star Chamber" – the Cabinet's mechanism for arbitrating between the Treasury and spending departments – chaired by Sir Geoffrey Howe, the Deputy Prime Minister, to rule on Mr Parkinson's spending demands for next year. But whatever happens in that forum, critics say the Government has yet to demonstrate that it has any long-term plan to deal with Britain's transport problems.

For example, Mr Chris Shepley, president of the Royal Institute of Town Planners, says the initiatives announced by Mr Channon appeared to be unco-ordinated responses to specific areas of public concern. Mr Shepley says the reason for this "fire fighting" approach is the Government's antipathy to anything that smacks of planning, and the abandonment of any attempt to integrate the development of the transport infrastructure.

"The principal problem is that there is no coordination of transport planning and land use planning. The London Docklands is the best example of the kind of awkward situation that gets you into. First there was no office building because there was no rail access, then they put in a small railway and office building boomed, now they are having to expand the railway to cope with the consequences of building," he says.

The Government can argue that there have been transport succes stories over the last 10 years. British Airways has been transformed by privatisation, the motorway network has been virtually completed (although the planning process has been exposed as inadequate), and investment in both roads and railways is rising. But Mr John Prescott, Labour's transport spokesman, believes none of that will cut mnch ice with an electorate which seems to be permanently stuck in a traffic jam.

"The mistake the Government made was to think that it was all just a matter of presentation," he says. "That's why they kept having all those press conferences to announce initiatives. But it is much more important than that. It is a fundamental problem of finding ways of financing the kind of investment in the transport infrastructure that has been achieved in the rest of Europe."

LOMBARD

A testing time for children

by Michael Prowse

THE CONTENT of Britain's new National Curriculum is the subject of lively debate. But the associated testing and assessment arrangements seem to be escaping scrutiny. This is ironic, because the tests constitute the most radical element in the Thatcher Government's educational strategy. Most countries have e national curriculum of some description, but none has contemplated external tests on the scale planned by the UK.

Many parents and employers, concerned about the low attainments of pupils, would have welcomed short tests in the crucial disciplines of maths, science and English. Bnt ministers appear to be creating a testing machinery of Byzantine complexity.

The UK National Curriculum covers 10 rather than three subjects. In each subject, detailed attainment targets are being set at each of 10 ascending levels of difficulty. The attainment targets are grouped into "profile components" (for example in English the profile components are writing, reading, and oral work). A pupil will be jndged as having reached level N in a given profile component if he or she achieves level N – or better – in half or more of the relevant attainment targets. The pupil's overall subject score will be e weighted mean of the scores in each profile component.

Children will be tested not on each subject, nor even on each profile component, but on *every* individual attainment target. In maths, science and English alone, seven-year-olds will be assessed on 33 separate attainment targets. This means the primary school teacher with a class of 30 will have to register 990 separate marks in these subjects, before beginning the statistical task of grouping marks into profile components and so forth. Indeed, this is an understatement of the workload because teachers will have to compare their own judgments of pupils' attainment with their performance in specially designed Standard Assessment Tasks. The SATs will not be pen and paper exams but extended tasks which could take several weeks to administer. The whole procedure will be repeated at the ages of 11, 14 and 16 (when it will run alongside the GCSE exam).

The testing machinery is intended not just to keep pupils' noses to the grindstone, but to exert discipline over teachers and schools. Every school will have to report its aggregate scores, probably down to the level of profile components in individual subjects. This will be no technical requirement because the testing will be introduced alongside the new policy of "open enrolment" and a shift towards a form of capitation funding. Schools will be competing for pupils and resources in an educational market place. In these circumstances, education *per se* is likely to become e secondary consideration; the schools' primary goal will be to maximise their aggregate SAT scores. The simplest procedure will be to find some way of selecting pupils according to ability.

Educational standards in Britain certainly need raising. It may also be true that state schools have not assessed pupils with sufficient rigour in the past. But the scale and complexity of present plans are looking excessive. Do we really need to hang grades around the necks of seven-year-olds? In Sweden children do not even begin formal lessons until the age of six or seven. Is the paraphernalia of attainment targets and profile components absolutely essential? In science alone, teachers will have to measure 17 different types of attainment. And do we want the state sector converted into a kind of football league with some children consigned to fourth division clubs?

Ministers should note that no other country accepts the need for external tests of the complexity and frequency envisaged in the UK. Moreover, much of Britain's independent sector has performed well with the spur of just one extra exam – the Common Entrance exam, taken at age 13. Nationwide exams in 10 subjects at four different ages will certainly be expensive to administer and police. But the benefits are quite uncertain: nobody was ever made taller by being measured.

LETTERS

The 'Guildford Four' and the UK jury process

From Mr Paul Robertshaw.

Sir, One aspect of Justinian's thoughtful article (October 23) almost broaches a further Royal Commission on Criminal Procedure.

Justinian remarks that the Phillips Commission was barred from examining the role of judge and jury. Lord Roskill's committee on serious frauds was hoist on the House of Lords' petard of its amendment in section 8 of the Contempt of Court Act 1981, which renders it a criminal offence to investigate jury deliberations. Justinian suggests that the inquiry by Sir John May should investigate the "unarticulated verdict" of the jury in the "Guildford Four" case.

I certainly agree with that in theory; it would require a dispensation under the Royal Prerogativa by the Home Secretary. But there are practical difficulties in this particular instance – tracing of the jurors for a start, coupled with the effect of tima on their memories. Perhaps these could be reduced by interviewing, both individually and as a group?

But Justinian's main thrust cannot be denied. We do need to know more about how juries make their decisions, and be influenced less by guesswork and prejudice about the jury process.

Is it not time for some recorded jury deliberations with full safeguards for both the jurors and defendants? It seems to me that this method is still relevant to, for example, serious fraud trials, and should be part of the general recording process for archival and educational purposes of war crimes trials.

Paul Robertshaw,
Cardiff Law School,
University of Wales

Paradox among the poor

From Mr N.J.R.J. Mitchell.

Sir, Mr John Denham criticises the rescheduling deal for South African debt (Letters, October 23). In fact it represents a good balance between the interests of South Africa and those of the banks and their shareholders.

Mr Denham works for War on Want. Along with Christian Aid and Oxfam, it is supposed to work for the relief of poverty. Nevertheless, we see the leaders of these charities supporting policies directly and deliberately aimed at increasing poverty in Sonth and southern Africa. A strange way to wage war on want.

N.J.R.J. Mitchell,
British Industry Committee on South Africa,
45 Great Peter Street, SW1

Circumstantial confusion

From Mr Ronald Best,

Sir, I have followed with great care the reported proceedings at the Commonwealth Conference.

Inevitably, I came to the conclusion that the UK was pursuing a policy, against all the other members of the Commonwealth, to support e regime opposed to democracy – and then, alas, on October 23 the Financial Times carried the headlines: "First ANC (African National Congress) rally for 29 years permitted" (page two) and "Opposition staff arrested ahead of Zimbabwe poll" (page three).

Who is fooling whom?

Ronald Best,
21 Millfield,
Berkhamstead,
Hertfordshire

'The most sensible alternative is to raise direct taxes'

From Mr Frank Blackaby.

Sir, We have "Tina" with us again – There Is No Alternative. Of course there is.

Accept that – in spite of high unemployment – the UK Government needs to reduce demand in the economy. There are four rules for the choice of instrument.

● The size of the effect from its use should be reasonably well known – quantifiable within a tolerable margin of error.

● The instrument should not itself put up prices, becanse of tha secondary effect on earnings.

● The Government should decide which type of demand it wishes to reduce, and target the measure accordingly.

● Damaging snpply-sida effects should be avoided so far as possible.

The use of interest rates falls under all four heads. There are no good quantifications of its effects, because the size of the effect depends, *inter alia*, on the whims of speculative markets. The use of the instrument puts up prices directly, and so raises the eventual unemployment cost of the policy. The measure picks out those with mortgages for particular punishment, and then redistributes most of the reduction in their income to those in credit with building societies or banks – a maladroit redistribution.

It is particularly damaging to initiative and enterprise in the small business sector; who is going to borrow at 18 per cent to start a new business? The effect on the exchange-rate is malign, maintaining a high exchange rate for an unpredictable period of time, until international money-market operators decide that a devaluation is inevitable and then act in such a way as to bring it about.

The most sensible alternative is to raise direct taxes.

The effect can be quantified with some precision. It does not raise prices. It cuts directly into consumer spending. It could be coupled with an interest rate reduction.

Of course the Chancellor would lose face by putting up taxes after bringing them down. Why is this so much more damaging than putting up interest rates after bringing them down?

Here we come up against one of those doctrinal obstacles which block the way to sensible economic policies. It is expressed in the Chancellor's proposition that inflation is a monetary phenomenon and must therefore be dealt with by monetary policies. Fiscal policy is for the long-term promotion of a spirit of enterprise.

This doctrine combines bad economics with defective logic. It could just as well be argued that enterprise would be promoted by steady interest rates, leaving short term management to the fiscal sector. In fact, any demarcation of this kind between fiscal and monetary policy is a mistake. To put the whole of the substantial adjustment needed onto monetary policy alone is very bad for the British economy.

For the size of the adjustment needed is substantial. The curious new Treasury doctrine, that a balance of payments deficit of the order of £20bn e year is not a problem, has had a very short shelf-life – about a month. The British economy is now set, for some long time to come, to limp along precariously from one set of trade figures to the next.

Frank Blackaby,
9 Fentiman Road, SW8

Pollution priced up

From Mr John Pirie.

Sir, Reports indicate that the work required to prevent environmental damage near the proposed high speed rail link between London and the Channel tunnel will be so expensive that train travel will be uncompetitive with the airlines.

This is an example of the need to apply the same criteria to all methods of transport – and include e pollution fee in the price of air tickets to fund work on reducing greenhouse gas and noise pollution caused by aircraft.

John Pirie,
The Ford,
North Hinksey Village, Oxford

Pinball politics

From Mr Chol Won Li.

Sir, *Pachinko* (pinball) gambling parlours have indeed suffered a bad reputation in Japan, mainly because many (not all) *pachinko* owners evade their taxes, and because of the involvement of the *yakuza* (Japanese gangs) in the industry (October 12).

Japanese owners make up about 40 per cent of all owners. It is not true that pro-North Korea owners, whether Korean or Japanese, dominate the National Pachinko Parlours' Association.

Chol Won Li,
International House 308
University of Warwick

Once upon a time...

...not so very long ago, in fact, an oil company tried to think of a name for its newest North Sea field. It wasn't easy. So many of the good names, it seemed, were already taken. And somehow the Tracy or Jason or Samantha field just didn't seem right.

Anyway, this was to be a very special field. It would produce not oil, but gas – about 70 million cubic feet a day.

And it would be the first of several that, together, would make this company one of the Kingdom's most important energy suppliers.

Then, suddenly, one day, someone came up with a wizard idea.

Camelot!

It was legendary. It was evocative. It was British. (It was available.)

Having thought of such a resonant name for such a productive field, the oil company then pondered, 'How can we celebrate Camelot and those fields to follow?

Thinking laterally, as any self-respecting oil company is wont to do, the memories of dreamy childhood holidays in North Cornwall eventually came to the fore. 'What about a quest to shed new light on Tintagel, that ruined castle most associated with the exploits of good King Arthur?' one particularly romantic oil executive (Yes, there are some.) enthused.

And that's just what the oil company decided to do, with a grant to improve the site's visitors' centre and support for a major archaeological dig that might just clear some of the mist that shrouds one of Britain's most enigmatic places.

May the intrepid scientists' subterranean activities be as successful as those of...

Mobil

Bostwick Industrial Doors
Bostwick Doors (U.K.) Ltd., Mersey Industrial Estate, Stockport, Cheshire SK4 3ED England Telephone 061-442 7227 Telex No 667724

FINANCIAL TIMES
Thursday October 26 1989

PLUMB CENTER
WOLSELEY
The name behind the name.

EC rejects US farm trade reform initiative

By William Dullforce in Geneva and Tim Dickson in Brussels

THE EUROPEAN Community yesterday rejected the new US initiative on world farm trade reform as a basis for further talks.

There was no doubt the US proposal aimed to scrap the EC's Common Agricultural Policy (CAP), not just adjust existing farm policies, the EC Commission said after the US paper had been put to a group meeting on farming in the Uruguay Round.

The US had failed to stick to the understanding reached in April, the Commission claimed. Then, the farm talks deadlock was broken by agreeing a formula for substantial progressive cuts in farm supports.

But the Commission said yesterday that the latest US proposals were a step backwards from negotiations last year.

Brussels aims to table its own proposals soon, but its reaction to the US paper could lead it into isolation.

In Brussels, Mr Raymond MacSharry, the EC's Agriculture Commissioner, expressed "deep disappointment" at the US proposals adding that they "could not be considered as a basis for negotiation." Mr Frans Andriessen, the EC's External Relations Commissioner, was not prepared to comment, but it was understood that he agreed with Mr MacSharry's remarks.

Mr Julius Katz, deputy US Trade Representative, said in Geneva that the US proposals had received "overwhelming" support during the group's morning session. The Cairns group of 13 farm-exporting nations approved the general thrust of the US approach.

Mr Peter Field of Australia, which co-ordinates the Cairns group, said the proposal showed greater US flexibility.

The US paper attacked a cornerstone of the CAP, the levy the EC uses to raise import prices to those of farm goods produced internally.

But it appeared to meet earlier EC charges that the US was not putting its own farm support regime on the line.

EC officials said the US has still not shown readiness to alter effectively its deficiency payments system for farmers to a way preventing them from producing large cheap surpluses which US commodity traders can sell worldwide at dumped prices.

Officials in Brussels said that the US programme was "a step backwards" following the conclusions of the April mid-term review of the Uruguay Round in Geneva which committed parties to a progressive and substantial reduction of farm subsidies but which made no reference to long term elimination.

The latest US position was seen as little more than a restatement of its "zero option" proposal at the start of the current Gatt round.

Some officials in Brussels privately noted the strength of the farm lobby in the US Congress, and suggested that the Administration was sticking to its extreme stance deliberately to scupper the outcome.

Others were more optimistic, seeing simply a continuation of the tough tactics employed in the negotiations so far.

It was also pointed out that the US has recently been stepping up its subsidised wheat sales on world markets, notably in China and North Africa, though there was no direct implication that the EC was set to follow suit.

Warsaw Pact to face calls for looser structure

By Robert Taylor and Enrique Tessieri in Helsinki, Christopher Bobinski in Warsaw and John Lloyd

WARSAW Pact Foreign Ministers, who today start their first formal meeting since political reforms in Poland and Hungary caused a deep rift in the alliance, are expected to hear calls from those two countries for a looser structure.

This would include a declaration that troops from one member state can never again be used to intervene in another's domestic affairs.

Mr Wojciech Lamentowicz, a foreign policy adviser to the Solidarity-dominated Government, gave a hint of his country's thinking in Frankfurt last weekend that the Warsaw Pact should be altered to become a genuine alliance of states, rather than of ruling parties.

It should be spelled out that being part of the Soviet security sphere no longer carried the meaning of being within the Soviet "sphere of influence," he argued.

In August, Hungary enraged East Germany by releasing refugees from the latter into Austria, and Romania tried to marshal Warsaw Pact support for a plan to invade Poland to stop the installation of a Solidarity-led government.

Fresh assurances of Moscow's willingness to abandon the Brezhnev doctrine - in whose name it claimed a say in the internal affairs of its allies, and the right to intervene militarily - came yesterday from President Mikhail Gorbachev, who is visiting Finland.

He told President Mauno Koivisto that neither the Soviet Union nor any other country had the "moral or political right to interfere" in the events now unfolding in Eastern Europe. "It is up to the peoples and nations there to decide their own future," a spokesman quoted the Soviet leader as saying.

Mr Gennady Gerasimov of the Soviet Foreign Ministry also quipped in a US television interview that the Soviet Union had adopted the "Sinatra Doctrine" for Warsaw pact nations - they can do things their way.

"He (Frank Sinatra) has a song, "I had it my way." So every country decides on its own which road to take," he told an interviewer, adding that "political structures must be decided by the people who live there."

Mr Gerasimov appeared on television to discuss the speech delivered on Monday by Soviet Foreign Minister Eduard Shevardnadze which condemned the 1979 Soviet invasion of Afghanistan and the construction of a controversial radar plant in Siberia.

In comments prepared for a dinner speech which will delight his Finnish hosts and also be closely studied in Eastern Europe, Mr Gorbachev also referred repeatedly to Finland's neutrality.

Diplomats saw his use of the word as an important clarification of the status of Soviet-Finnish relations, which have been defined since 1948 by a treaty of friendship, co-operation and mutual assistance.

Although that treaty, which calls on the two countries to confer in the event of a military threat, remains in force, observers said that by stressing Helsinki's neutral status, the Soviet leader was stripping the accord of some of its political significance.

Advocates of reform in Eastern Europe are known to be studying Soviet-Finnish relations as a possible model for their own countries' ties in Moscow.

But a Soviet spokesman in Helsinki cautioned against drawing too close a parallel, noting that there was a difference between Finland and states which had treaty obligations under Comecon and the Warsaw Pact.

Today's meeting in Warsaw will include the bizarre spectacle of Mr Mr Tadeusz Mazowiecki, the Polish Premier, making a speech that will be answered, on behalf of the visitors, by Mr Ioan Totu, Romanian Foreign Minister.

Only two months ago, Romania was pressing for a Warsaw Pact invasion of Poland to avert the installation of a Solidarity Government.

Two days of talks in Warsaw by Mr Shevardnadze have dispelled much of the uncertainty over the Soviet stance on Poland.

Mr Mazowiecki, who talked for two hours with Mr Shevardnadze on Tuesday, emerged from the meeting relieved at his businesslike and calm approach, and with a date fixed for a visit in Moscow on *November 23*.

Yesterday, Mr Shevardnadze said relations between the two countries were at "a very interesting stage" after a meeting with Mr Mieczyslaw Rakowski, Polish Communist Party leader.

Mr Rakowski whose party is the first in the Soviet Bloc to lose its grip on power, praised the fact that Mr Mazowiecki would be going to Moscow and said "Poland needs this visit."

The Soviet Union needed to conduct a realistic policy towards "the new forces" in Poland — meaning the new Solidarity Government.

He noted the Poles he had met had confirmed the country would stand by its Warsaw Pact obligations. The Polish Government told Mr Shevardnadze that it attaches great importance to strong economic ties between the two countries. He has confirmed that Soviet deliveries of raw materials in future will not be lowered from their present levels.

A young girl in East Berlin places a candle in front of East German soldiers to protest against the election of Mr Egon Krenz as the country's new leader. Yesterday, Mr Krenz said he was willing to talk to opposition groups. Asked if his offer included New Forum, the largest with more than 30,000 members, he said: "Every idea is needed. In the exchange of opinions, no citizen is excluded." Mr Krenz also showed a strong interest in improving relations with West Germany. Page 2

Sir Alan no stranger to the political boxing ring

By Simon Holberton in London

SIR ALAN Walters, the centre of a dispute within the British Government, is a man of strongly held and argued views. He is not a stranger to controversy, nor does he shrink from expressing unpopular views.

Today will not be the first time that Mrs Margaret Thatcher, the Prime Minister, has had to justify her employment of both Sir Alan Walters as her part-time economics adviser, and Mr Nigel Lawson as her full-time Chancellor of the Exchequer. But she must hope it is the last.

Sir Alan's criticisms of the European Monetary System (EMS) in an American economics journal, appeared to break the uneasy truce that has existed between the Prime Minister and Mr Lawson since the summer.

He was openly critical a year ago of Mr Lawson's policy of shadowing the Deutschmark and cutting interest rates to preserve exchange rate stability. He was also the man behind the criticisms voiced by the Prime Minister in May that Britain picked up its inflation by trying to shadow the D-Mark.

In common with the Prime Minister he holds convictions firmly. In his now notorious essay for The American Economist he concludes: "One should never give in to pressure - to be popular or fashionable or in the main-stream. One should concede only if the argument and evidence win the point or the day. To thyself be true."

Although his essay was written a little over a year ago there is no reason to suspect that he has changed his view that the EMS is "half-baked". He views the EMS as an unstable system that is potentially inflationary.

Sir Alan, by contrast, is not opposed on economic grounds to a common European currency or the creation of institutions to support it. As a step towards that he is not opposed to the fixing of European exchange rates and the use of monetary institutions to support that fixity.

He is at his most controversial when addressing issues of macro-economic policy. But few professional economists believe his contributions in this area of economics measure up to his papers and books on micro-economic subjects, especially in the area of transport.

Sir Alan's detractors are fond of describing him as a "transport economist", but others recognise that he has made important contributions to this area of study. He was also an early worker on "rational expectations" theory and the first economist to produce UK money supply statistics.

"He rates very highly as a micro-economist; he has a world-wide reputation in transport economics," says Mr Peter Spencer, UK economist *at Shearson Lehman Hutton*, the US securities house.

In his work with the World Bank in Washington he has been influential in devising polices for developing countries, especially in the transportation field. The Singapore government adopted his policy recommendation to cope with traffic congestion - a pricing policy to enter busy downtown areas.

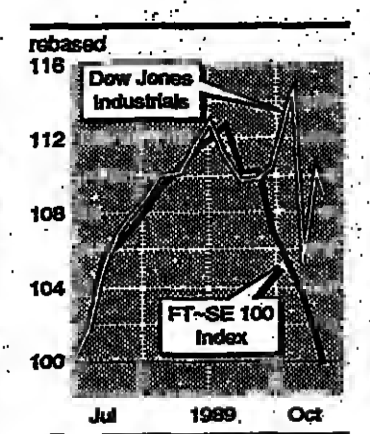
"This area pricing scheme of *1975 was similar to the model* I outlined more than 20 years before," he said in his essay. "The scheme turned out to be not only a considerable economic success but also, which I did not foresee, a great political success."

He has described working for Mrs Thatcher as the apogee of his career. But for a man who shows every indication of liking the public eye, the price of him keeping it is silence.

THE LEX COLUMN

Squeezing value from analysts

The decision this week by Citicorp Scrimgeour Vickers to halve its UK equity research coverage will doubtless prove a tempting precedent. Even for the best of the big London firms, stockbroking proper has become a breakeven business. With the all-up cost of the average analyst running as high as £150,000 a year, the only question is whether shedding that cost might mean shedding even more revenue.



The answer could be yes. Cut the research product and the general sales force may be underused. Cut the sales force and the firm may not have the distribution to secure the lucrative big equity issues. A research house which covers the whole market can advise on sector weightings with more authority. And in mergers and acquisitions, the analyst is often the key to getting in on the deal.

But none of that applies unless the analysts rank high in their sectors. Those foreign houses such as Morgan Stanley which have managed to attract top UK analysts have become formidable competitors; despite making no attempt to cover the market. And although full market coverage has its uses, there are still half a dozen London firms providing it — surely too many.

It is possible to envisage an industry with a couple of full-service houses at one end, some small research boutiques at the other and a middle rank consisting of once bigger houses which have retained only their worthwhile analysts. None of these seems to fit poor old Citicorp which in the last Extel survey had no ranking sector analysts at all. But the burden of unproductive research is one of the industry's most pressing problems. The way equity turnover is going, it may have to be addressed fairly promptly.

LWT

The bitchy world of British television will doubtless find much to titillate it in the full document describing LWT's scheme to give 44 of its managers up to 15 per cent in the company. That Mr Melvyn Bragg could find himself £1.9m richer in 1993, if everything goes according to plan, is merely one of the glossier details.

LWT wants to ensure that it keeps its TV franchise after 1991, by issuing golden handcuffs to key employees and by shrinking its capital base to a more manageable size. The whole thing looks even more unappealing to outside shareholders now, when put forward in its legal minutiae, than it did when first proposed.

It transpires, for example, that the figure of 44 managers is rather misleading. In fact, nearly two-thirds of the management's new equity in the company will go to a much smaller circle of eight executives, led by Mr Christopher Bland, its new chairman. If LWT's share price does very well, and reaches 327p by 1993, this group will possess more than 8 per cent of the company, or nearly as much as Prudential owns now.

Such transfers of wealth from pensioners and policy-holders to London's media élite would be acceptable if incentives on this scale could be shown to be merited. Yet other TV companies, such as Central and Thames, have not felt obliged to offer them, although their executives and profit margins are not visibly less impressive than LWT's. It is worth pointing out, too, that LWT's most-watched programme, Blind Date, is one for which its managers can claim only limited credit, since it is made under licence from the US.

Sterling

In a quiet and rather perplexing way, sterling has been staging a recovery. Despite Monday's trade figures, which do not improve on inspection, the trade-weighted figure has gained almost 1¼ per cent in the past fortnight. Partly, this has to do with dollar weakness on further evidence of a slowing *US* economy and consequent rumours about a cut in the Fed's discount rate. But sterling's recovery against the D-Mark is much less easy to explain.

It may be that bearishness has simply become too prevalent: that everyone is short and the risk is now of a rally. Indeed, within the short horizons of the currency trader, the prospect of a couple of weeks without economic data and an interest rate of 15 per cent is scarcely grounds for selling. If so, Mr Lawson has time on his side - until the next trade figures, at any rate. The surely erratic rise of nearly 15 per cent in non-oil exports in September is a worry: if that were partly reversed next time and imports did not respond to treatment by showing a fall, another £2bn shocker could be on the cards for October. Despite the recent lull, it is too early to assume the sterling crisis is over.

Coates-Orkem

As the relentless tide of privatisation surges on, it is intriguing to see a British company react with equanimity to the prospect of joining the nationalised sector, and a foreign Socialist-controlled nationalised sector at that. Of course, shareholders with 40 per cent holdings are able to make offers that directors cannot refuse. It therefore seems likely that only the formalities need be observed before Coates becomes part of Orkem (better known by its old name as CdF Chimie), with the deal doubtless accompanied by much ritual invocation about the approach of 1992.

What follows from there is less certain. The main effect may be that Serge Tchuruk, Orkem's chairman, will have a stronger hand to play in the negotiations over the restructuring of the French chemical industry. Mr Tchuruk, who is set to become the president of Total next year, may hope to move Coates and the rest of the Orkem speciality chemicals businesses into the Total group, or indeed to establish the various speciality chemicals businesses as an entirely separate company.

Coates may not have foreseen all the consequences when it leapt out of the clutches of Mr John Spalvins and into the willing arms of Orkem last year. But the company's shareholders will not have suffered unduly. Before the announcement of the original deal between Coates and Orkem, the non-voting shares were trading at 250p. So the likely eventual takeover price of between 450p and 500p; representing an exit p/e of between 13 and 15, ought to satisfy most investors.

Moscow devalues rouble exchange rate

By Quentin Peel in Moscow

THE Kremlin yesterday took action to take the steam out of the Soviet Union's rampant currency black market by announcing a new dual exchange rate for the rouble.

Gosbank, the Soviet state bank, yesterday announced a new "special rate" for the Russian currency involving a 90 per cent devaluation for all personal transactions.

The new rate values the non-convertible Soviet currency st $0.16 to the rouble, instead of the current official rate of $1.60. This will apply to both Soviet and foreign citizens, *according* to the official announcement.

Gosbank stated that the new exchange rate as Rs6.26 to the dollar, instead of the current *Rs0.63*.

It will not apply to trade transactions or investment, but is rather intended immediately to undermine the country's flourishing black market according to Soviet commentators. Official spokesmen refused to elaborate on the bald statement.

However businessmen and bankers in Moscow believe that the admission by the Soviet authorities of the huge disparity between the official exchange rate and the black market rate is bound to put pressure on the official rate in the long run.

In particular, potential joint venture partners are unlikely to accept valuation of their foreign currency investment at the official exchange rate any longer.

The new system will be introduced from November 1, just two days before a planned *foreign currency auction for* state enterprises at Vneshekonombank, the state foreign trading bank.

If the event goes ahead - it has been postponed repeatedly since last April because the foreign currency on offer fell so *far short* of the bids - *it* should give some indication of the pent-up pressure for foreign exchange in the economy.

The Gosbank announcement published by Tass, the official news agency, said that the special rate would apply to all Soviet citizens travelling outside the country, whether on personal trips, or on business.

Unconfirmed reports said foreign visitors, whether tourists or businessmen, and foreign residents, would be able to use the special rate for personal expenses, when changing foreign currency at the bank. Gosbank said that the new special rate would by published *monthly*, *implying* a *regular* adjustment, possibly to take account of the pressures in the black market.

In the only commentary on the decision, the government newspaper Izvestia quoted Rs20 to the dollar for goods like video recorders, and Rs60 to the dollar for pearl necklaces, referring to the "absurdity of the official exchange rate."

"If a *businessman* or *tourist* arriving in this country was previously given at the banks Rs600 for his $1,000, and on the black market Rs10,000 or more, *then* the temp*tation* to change a large portion of his cash at the unofficial exchange rate was too great," said commentator Mikhail Berger.

"This decisive measure has been taken against the black market, where a significant part of the hard currency *brought into this* country simply floated away.

"This new exchange rate has been introduced only for non-trade transactions," he said.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	20	68	Dubrovnik	S	20	68	Malta	F	22	72	Rhodes	S	22	72
Algiers	S	20	77	Edinburgh	R	11	52	Manchester	C	15	59	Rio de J'o	C	30	86
Amsterdam	C	14	57	Faro	F	22	70	Manila	F	34	93	Rome	S	20	68
Athens	S	24	75	Florence	C	13	55	Melbourne	C	16	61	Salzburg	S	20	68
Bahrain	S	30	86	Frankfurt	S	17	63	Mexico City	F	23	73	San Francisco	F	11	52
Bangkok	F	33	91	Funchal	C	18	64	Miami	S	19	66	Seoul	S	20	68
Barcelona	S	21	70	Geneva	S	18	64	Milan	C	11	52	Singapore	F	31	88
Beirut	*	—	—	Gibraltar	C	21	70	Montreal	S	6	43	Stockholm	F	12	54
Belfast	R	10	50	Glasgow	R	11	52	Moscow	R	8	46	Strasbourg	S	20	68
Belgrade	S	21	70	Guernsey	F	14	57	Munich	S	19	66	Sydney	F	24	75
Berlin	F	17	63	Helsinki	R	8	46	Nairobi	F	24	75	Taipei	F	28	82
Biarritz	S	22	70	H. Kong	S	27	81	Naples	S	22	72	Tangier	F	28	73
Bombay	S	34	93	Innsbruck	S	17	63	Nassau	*	—	—	Tel Aviv	F	20	77
Bordeaux	S	21	70	Inverness	F	11	52	New Delhi	S	29	84	Tenerife	C	22	72
Brussels	S	17	63	Islamabad	F	28	82	New York	S	12	54	Tokyo	F	18	64
Budapest	S	21	70	Istanbul	F	17	55	Nice	S	20	68	Toronto	Fg	8	46
B. Aires	F	27	88	Jakarta	R	34	93	Nicosia	S	26	79	Tunis	C	22	72
Cairo	F	25	77	Jersey	F	16	61	Oporto	F	23	73	Valencia	F	21	70
Cape Town	S	20	68	Jo'burg	F	20	68	Oslo	S	13	55	Venice	F	13	55
Caracas	C	28	82	Lima	F	21	70	Paris	S	18	20	Vienna	S	22	72
Casablanca	C	34	93	Lisbon	F	21	70	Peking	S	21	70	Warsaw	C	16	61
Chicago	S	12	54	London	S	17	63	Prague	S	18	64	Washington	S	6	43
Cologne	S	18	64	Los Angeles	F	17	63	Reykjavik	F	3	37	Zurich	S	17	63
Copenhagen	C	13	55	Luxembourg	S	16	61								
Corfu	S	23	73	Madrid	S	14	57								
Dallas	*	—	—	Majorca	S	26	79								
Dublin	R	11	52	Malaga	F	22	72								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Mitterrand urges EC

Continued from Page 1

mentary draft which served as a model for the Single European Act, which laid the foundation *for the completion* of the internal market.

The French President referred to two likely demands from the Parliament – for an extension of Strasbourg's authority on EC legislation and Parliamentary election of Commission presidents, which at present are appointed by governments. "These ideas are floating, though they have not yet landed," said Mr Mitterrand.

On aid to Poland, the presidential statement noted that France had already renewed its *official guarantee for* FFr650m of commercial credits to the country in June this year, when Mr Mitterrand visited Warsaw, and this amount has since been extended to FFr900m.

A further FFr2bn of officially guaranteed credit lines will be opened over the next three years, the Elysée said yesterday. In addition, a FFr90m grant will be used for training and technical assistance.

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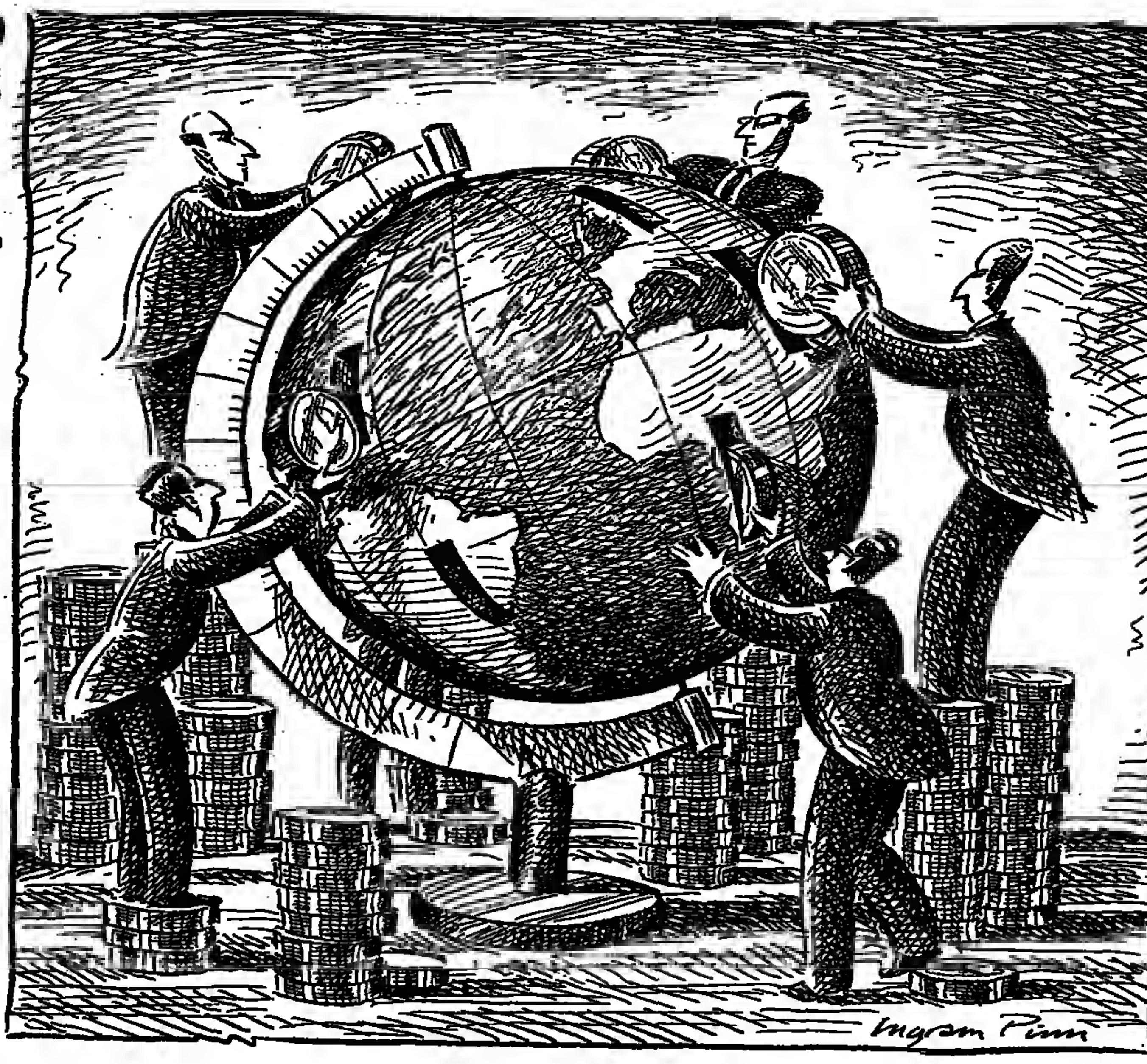
SECTION III

FINANCIAL TIMES SURVEY

Fund managers, dealing in the worldwide securities markets, are the new intermediaries in recycling global imbalances, says Barry Riley. Before them lie not only major business openings, but also risks, to be controlled within a complex macro-economic picture.

Investment's balancing act



INTERNATIONAL
Fund Management

CONTENTS

Editorial production: Martin Davies

TODAY'S MANAGERS of international securities portfolios have an unprecedented opportunity, but possibly a dangerous one.

In the 1970s it was the bankers who took the lead role in recycling global imbalances, and many banks are still reeling from the mistakes made at that time. Leading American and British banks have just completed a further round of Third World debt provisions.

Now, it is not the earnings of oil countries that are being recirculated, but the persistent trade surpluses of Japan and Germany. On the other side of the global balance sheet come the accumulating deficits of the US, the UK and several other countries.

The new intermediaries in this are the international fund managers who deal in worldwide securities markets worth some $20 trillion (million million). In particular, portfolio investment outflows of the order of $100bn a year have been seen from Japan in the late 1980s.

Plainly, there are some major business openings here for fund managers. But are they up to the challenge? The 1987 crash was a warning of how shocks can now be transmitted around the world. Some of the same risks have re-emerged in recent weeks. If investment capital is securely committed to long-term opportunities, it must be a stabilising force. On the other hand, there is a danger that the build-up of mobile international funds could prove disruptive. The Japanese, for instance, may encourage their companies to pursue long-term objectives at home, but their activities in foreign equity markets tend to be highly speculative and transient in nature.

A few weeks ago at the IMF meeting, Nigel Lawson, the British Chancellor of the Exchequer, argued controversially that, with the lifting of controls on capital movements in many countries of the world, it would now be possible for persistent current account imbalances to be financed through investment flows. He drew parallels with the late 19th century, when recurrent deficits in, for example, the US were financed by sales of bonds, equities and property to British investors.

A century later, the American balance of payments deficit is being largely financed by bond sales to Japanese investment institutions, together with relatively minor sales of equities and investment property. There is also direct investment in companies and factories, which has been rising rapidly, but is still much less important than the portfolio flows.

Yet, despite the superficial parallels, there are also some important differences in the financial pattern, compared with 100 years ago. One is that the volatility of investors is much greater. In 1889, they had to be prepared to make long-term commitments, and it took days or weeks for information to cross the Atlantic.

In 1989, knowledge is obtained simultaneously all over the globe, and dealing facilities are instantly available at the pickup of a telephone.

Another difference is that the major national deficits in the world today do not strictly reflect major long-term investment opportunities, but rather excess domestic consumption in mature economies.

The genuine demand for long-term capital exists in the Third World. But the political and financial infrastructure is, generally speaking, not in place to permit the matching of demand and supply.

Even in the developed world, the long-term capital flows do not always move in the appropriate direction. As a good example, take the strange case of the UK which, in 1989, has been running a current balance of payments deficit at an annual rate of some $30bn. On the face of it, there has been an opportunity for foreign investors to supply long-term capital to cover the gap. That would be an appropriate solution, according to Mr Lawson. But the fact is that there has been a significant outflow, rather than inflow, of investment.

The circumstances have been peculiar. To begin with, the British Government is in surplus; so, in contrast to the behaviour of the US authorities, the British Treasury is buying back its bonds in the market. The company sector, meanwhile, has been going on a takeover spree largely financed by bank borrowings. So the available pool of UK equities has been shrinking.

This has left British investment institutions, which have an annual net cash flow of some $40bn, with no real alternative but to look abroad. In the six months ended last March, they invested more than $10bn net in foreign equities, more than replacing the securities which they famously dumped in panic selling after the 1987 crash. Substantial buying appears to have continued into the second and third quarters of the year, although detailed figures are not available.

The net effect of all this in the UK's case has been that, far from reducing the need for short-term inflows to finance the $30bn current account deficit, portfolio investment movements have been such as to increase eubstantially the requirement for such "hot money". A predictable result has been a difficulty in maintaining the external value of sterling even at progressively higher interest rates.

These perversa flows may only prove temporary, however. It will be perfectly possible for the short-term credits to be funded by long-term investment flows at some stage in the near future, perhaps after sterling has depreciated and stabilised, and the UK looks more attractive to foreign portfolio investors.

As for the US, where purchases of securities by foreigners have played a more conventional role in financing the deficit, a test to confidence may lie ahead. The justification for such financing is that it provides time for the productive capacity of the economy to be built up, so that eventually the loans can be repaid and the equities can pay dividends. But if the inflows simply finance excessive consumption, the deficit will not be redneed; indeed, it will be exacerbated by the servicing costs of the accumulating foreign debt.

The role of the exchange rate is crucial here. Normally, a depreciation would be appropriate to improve the competitiveness of domestic industry. But this may not be in the interests of foreign investors, especially where they have invested in fixed-income securities denominated in the currency of the deficit country.

This is the dilemma faced by Japanese investors in dollar bonds. When the dollar was weak, between 1985 and early 1988, the Japanese institutions incurred hnge book losses. Their willingness to maintain positions was astonishing.

More recently, the dollar has become firm again, and Japanese funds have made currency gains. The question is whether this need to see a firm dollar has encouraged Japanese investors to overcommit themselves to dollar bonds, and in effect to overfinance the US deficit. If so, in preserving their portfolio performance, Japanese fund managers are making it impossible for the US to emerge from deficit. This can only lead to a serious crisis of confidence, probably at a point when the US deficit clearly starts to deteriorate once again.

At present, global capital flows appear to be driven by demographically-based savings snrpluses in, particularly, Japan and Germany. In the circumstances, it can be very difficult for deficit countries to correct their imbalances, given that their currencies tend to remain too high for too long.

Fund managers caught up in this macro picture will have to control their risks as best as they can. So far, it has been a very good year for equity investors, but not as good as it might have been if fund managers had got their asset allocations right.

In 1988, for instance, foreigners were net sellers of US equities, although the US has provided the best returns in 1989, especially when currency gains are added. Similarly, foreigners returned to Tokyo in the last quarter of 1988 and the first quarter of 1989, but recent returns on Japanese equities have been disappointing. The pattern of missed opportunities is reminiscent of 1987, when international investors moved heavily out of Japan, although that country provided some of the best returns of 1988.

If the global capital market is to work properly, the returns to investors should tend to be higher in deficit countries than in the surplus nations. But, even if that proves true in the long run, over short periods results can be very different.

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INVESTMENT FLOWS: **Barry Riley** traces the movement of funds

The return of an old pattern

YOU CAN call it a vast casino, but it is also a mechanism for reconciling global imbalances in savings and investment, and for allowing diversification of risk.

The global securities market was capitalised at something like $19 trillion (million million) at the end of last year, according to estimates by Salomon Brothers. That could be divided neatly in half to give the split between bonds and equities, although, with the strength of stock markets worldwide this year, the present equity aggregate is nearer $12 trillion.

At the end of 1988, according to Michael Howell, of Salomon, equity assets held by foreign investors totalled $640bn, or 6.7 per cent of the world market capitalisation. The accessibility of these global opportunities in bonds and equities to particular national investors varies widely, however. Since the second world war, foreign exchange controls have been common in many countries, imposed either on primary access to foreign currency, or on the composition of particular institutional portfolios.

During the 1980s, many of these curbs have been lifted. It has been a decade of deregulation. All the same, such distortions remain an important feature in many countries. Japanese institutions are still subject to detailed rules on overseas exposure, although there is still adequate headroom above the present 15 per cent overseas commitment. And even in the UK the innovative personal equity plans, which are now proving much more popular, are confined to UK equities.

Cross-border portfolio investment is, however, becoming an important feature of capital markets worldwide. In a sense, this is a return to the pattern of the nineteenth and early twentieth century, when international bonds were widely sold, although successive defaults in South America, Russia, China and elsewhere led to severe losses for investors.

These days, only high quality bonds are marketable: the Third World is scarcely in the picture, although it may benefit from finance raised by institutions such as the World Bank. Who would want to buy South American bonds, when the US Treasury is churning out debt securities on a multi-billion scale?

After the second world war, the international capital market was focused upon various small countries which did not offer adequate internal investment opportunities. Switzerland, in particular, built up a niche, gathering in private client funds, with the attractions of confidentiality and security, and placing them in the US and other markets.

The growth of the international bond market (mainly Eurobonds) to a size approaching $1 trillion – a tenth of the global bond market total – is an indication of the scale of development of this marketplace over the past 25 years or so.

In the 1980s, however, the more important phenomenon has been the explosion of institutional investment out of the leading industrial countries. Japanese institutions, notably, have become huge investors in US domestic bonds. Their total net purchases of overseas securities have exceeded $400bn during the decade. About half of that represents US Treasury securities, and that may not be the full exposure, given that, through a regulatory quirk, some $100bn of the Japanese purchases of securities have been booked through Luxembourg.

The motivation of the Japanese institutions has been to earn a higher return on funds than has been available in the yen bond market. In fact, the currency losses suffered between 1985 and 1988, when the yen appreciated against the dollar, were on such a scale as to ruin the arithmetic. But, because of accounting conventions, the Japanese life companies were able to bury the losses by offsetting them against the very large profits accrued on their domestic equity portfolios. This year, with the yen turning weak, the currency picture has become highly favourable again.

British institutions have been the other major participants in global investing. Since foreign exchange controls were lifted in 1979, they have greatly increased their international exposure. Some $200bn of foreign securities are owned by UK investors.

Unlike the Swiss, the Japanese and the Germans, however, the British have concentrated upon equities. This may reflect the inflationary environment faced by investors in the UK, and in particular the salary-related liabilities of the pension funds. Bonds have not proved to offer a good match for these liabilities over the past 25 years, during which pay inflation has averaged some 10 per cent a year.

Institutions in, say, Germany have been able to achieve the returns they require at a lower risk in the bond market. All the same, equity market returns have been exceptionally good (especially over the past 15 years), and the British institutions have prospered on the basis of their equity-oriented strategies.

During the 1980s, the benchmark for exposure to foreign equities has been successively raised by British pension funds from 5, to 10, to 20 per cent of overall portfolios, and many are now at more like 25 per cent.

Until recently, British investors spurned foreign currency bonds, but the recent vulnerability of sterling, coupled with the depletion of their sterling bond portfolios through Government buy-backs of gilt-edged securities, has prompted something of a rethink.

Within the past few months, for instance, Mercury Asset Management, the biggest external manager of UK pension fund portfolios, has moved 10 per cent of assets for discretionary clients into a pooled multi-currency bond vehicle (about 70 per cent hedged back into sterling). With 24 per cent in foreign equities, total international exposure is now nearly 35 per cent for MAM.

In contrast, American investors have proved slow to diversify their horizons. Traditionally, of course, the US has provided unrivalled investment opportunities inside its own borders. And within the past few years the apparent overvaluation of the Japanese stock-market, which dominates the picture outside the US, has discouraged American institutions. Also, US investors have been unsure how to cope with the enormous swings by the dollar against other currencies.

So, although US pension funds' aggregate foreign equity portfolios passed the $50bn level in 1988, this has remained less than 5 per cent of total assets.

The more interesting scene in the next few years could be Europe, where in the run-up to 1992 substantial changes in the financial framework are taking place. Ultimately an integrated European Community capital market is the aim, and there should be a substantial increase in cross-border flows.

"Cross-border investing is starting to pick-up in Europe quite significantly," says Michael Howell.

Summary Net Equity Flows, 1986-88 (US$ bn)

	1986	1987	1988	Fourth Quarter 1987	1988 Net Flows as a Percentage of Market Capitalisation
Investor From:					
US	2.4	(1.1)	(0.6)	(3.7)	0.02%
Japan	7.1	16.9	3.0	3.3	0.08
UK	9.5	(0.3)	7.2	(11.2)	1.01
Continental Europe	12.0	6.8	8.1	(7.2)	0.65
Rest of World	0.6	(18.4)	3.4	(12.0)	0.35
Total	31.7	4.0	21.1	(30.8)	0.22%
Market To:					
US	18.7	16.2	(1.8)	(7.2)	0.06%
Japan	(15.6)	(42.8)	6.8	(21.5)	0.16
UK	4.3	10.0	4.3	(0.4)	0.61
Continental Europe	20.3	8.7	13.0	(6.0)	1.38
Rest of World	4.1	11.9	(1.2)	2.7	0.12
Total	31.7	4.0	21.1	(30.8)	0.22%

Source: Salomon Brothers

THE US

Global caution persists

BEHIND FEVERISH talk of global diversification within the US fund management world lie some stark facts.

In mid-June, US tax-exempt institutions – a category which includes corporate and public pension funds, foundations and endowments – managed assets totalling a gigantic $2.6 trillion (million million).

But, according to figures provided by Intersec Research Corp, only $67.8bn of that, or less than 3 per cent, was invested internationally.

Despite the aggressive entry of US banks and brokers into Europe, as they gear up for business after the 1992 economic integration, investors are still extremely cautious about committing more funds to foreign markets.

Intersec is predicting that assets invested by tax-exempt institutions overseas will rise roughly two and a half times to perhaps $160bn by 1994.

As a percentage of total projected assets, that would still be only around 5 per cent, much lower than in other countries.

According to a survey of nearly 1,500 pension funds, conducted by Greenwich Associates, a research and consultancy group, corporate pension fund managers expect to raise the proportion of their funds invested overseas to 6.8 per cent by the end of 1991, from 4.3 per cent in 1988. Public pension funds forecast a rise to 3.2 per cent from 1.4 per cent in the same period.

International assets under management ($bn) (invested by US tax-exempt institutions)

Year end	Total assets	Active equity	Passive equity	Fixed
1994 projected	160.0	85.0 (53%)	35.0 (22%)	40.0 (25%)
1989 estimated	75.0	52.0 (69%)	11.0 (15%)	12.0 (16%)
1988	62.4	44.5 (71.3%)	8.8 (14.1%)	9.1 (14.6%)
1987	50.3	35.5 (70.6%)	6.4 (12.7%)	8.4 (16.7%)
1986	45.2	36.2 (80.0%)	3.1 (6.8%)	5.9 (13.1%)
1985	27.0	23.0 (85.2%)	1.0 (3.7%)	3.0 (11.1%)
1984	15.7	14.1 (89.8%)	-	1.6 (10.2%)
1983	11.7	10.3 (88.0%)	-	1.4 (12.0%)
1982	7.2	-	-	-
1981	5.2	-	-	-
1980	3.2	-	-	-
1979	1.8	-	-	-

Source: InterSec Research Corp

Taking all pension funds together, fund managers expect to have 4.9 per cent invested overseas by the end of 1991.

A commitment of just under 5 per cent of total assets to foreign markets is much lower than the trend in other countries. In Britain, a typical fund manager commits around 24 per cent of his or her portfolio to overseas markets. In Japan, the equivalent figure is around 12 to 13 per cent. The Canadian Government limits foreign investment to 10 per cent, and most pension funds are bang up against this ceiling.

Most US fund managers do not find this caution about international investing particularly surprising. First, the home securities markets are extensive, liquid and varied and many investors do not see the need to diversify abroad, despite the fact that experience suggests that both risk and returns are more favourable.

Second, there are formidable problems in investing abroad and negotiating a patchwork of varying securities regulations, clearing and settlement systems, reporting requirements and accounting procedures. In many cases, although this is changing, foreign markets do not offer the sophistication afforded within the US.

Many fund managers still have to work within the parameters of covenants which restrict how much money they can put to work overseas. Union funds do not invest overseas at all, and insurance companies have little or no investment abroad.

There are two major developments (outside the key factors of risk and return) which should, however, encourage the gradual internationalisation of US portfolios. A key one is the 1992 economic integration of Europe and its forecasted benefits for investment and economic growth.

The second is increased co-ordination between securities industry regulators within the Group of 30 to harmonise rules governing clearance and settlement, accounting and the rest to facilitate cross-border capital flows.

Pension funds are definitely keen to diversifying overseas. Mr John Bushby, director of the mutual funds division of Bank of Boston, said that the trend was very strong and that pension funds increasingly demanded from their custodian banks an international presence and expertise.

He expects the proportion of funds managed by Bank of Boston to rise from 4 per cent to as much as 15 per cent over the next two or three years.

Mr Larry Hite, founder of Mint Investment Management Co (one of the world's largest managers of commodity funds and one of the most consistently successful, trading everything from dollars to copper to grains), believes that the process towards internationalisation of portfolios will be only gradual, partly because investing in the US is conservative by nature.

He believes that the enormous growth of passive or indexed investing (in which a money manager seeks to do no more than track a major index) reflects the fact that many US investors are content with relatively unrisky investing and average returns.

Most of his clients are offshore, where there are fewer disclosure requirements, and they want performance. Even with a risk-averse strategy, the freedom to invest in any asset class in any country means much larger returns than the major indices.

Although the proportion of assets invested overseas will remain relatively small, the shift towards globalisation is being tackled in a myriad of different ways.

Different US money managers see different opportunities. Phoenix Mutual Life Insurance Co, for example, has just teamed up with Murray Johnstone, Scotland's largest independent money manager. Mr Russell Irving, senior vice president of Phoenix Investment Council, is studying opportunities for Phoenix to manage money in overseas centres.

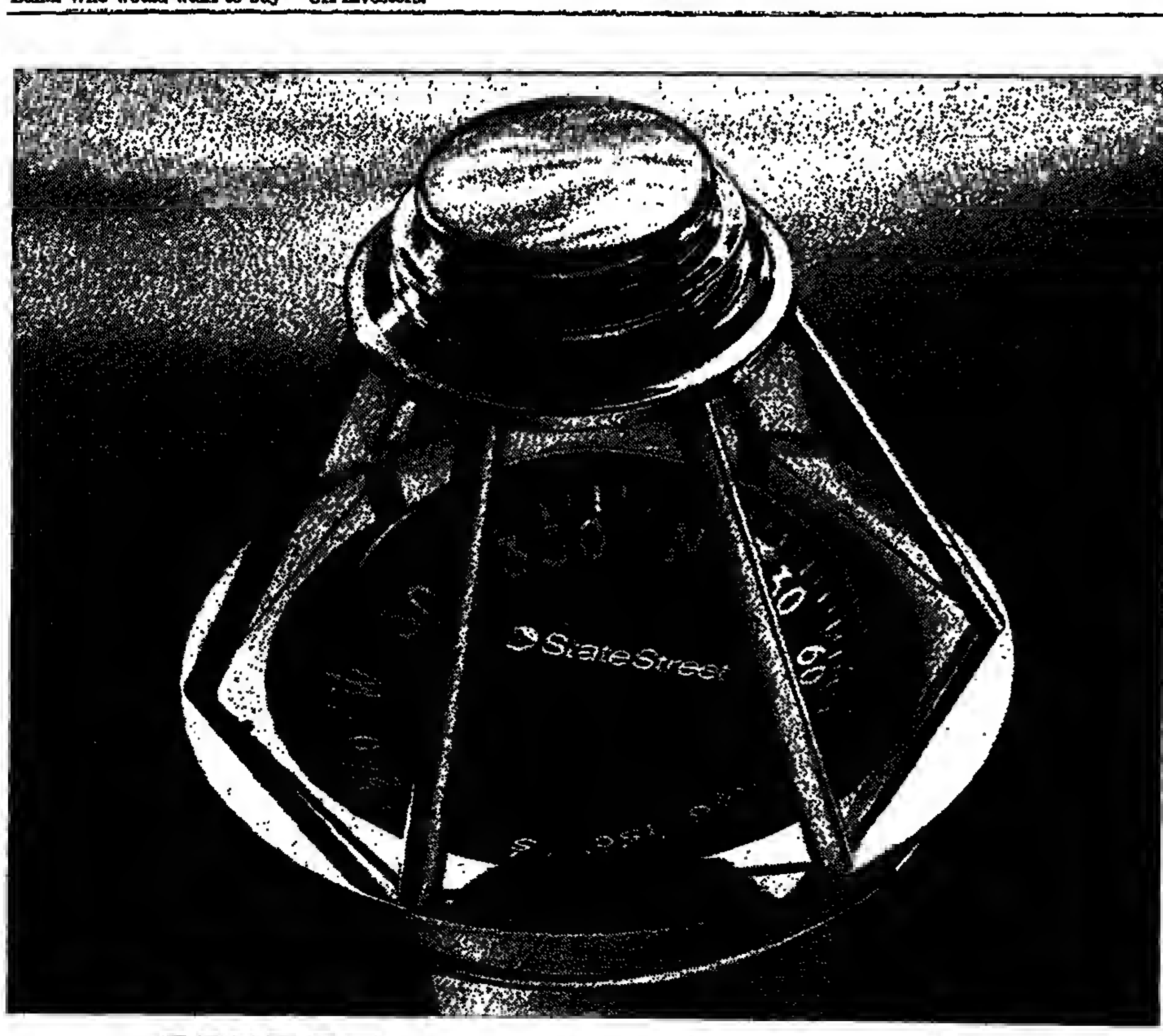
Mr Anthony Regan, head of international investments at Putnam, a major marketer of closed-end bond funds, believes there will be increasing interest in international bond funds.

Mr Duncan Fordyce, of Intersec, notes that there has been a proliferation of styles of equity management.

The move towards internationalisation of portfolios has, for example, encouraged the growth of firms that specialise in managing currency risk, tailoring their product to each fund manager, depending on whether he or she wants to be fully or only opportunistically hedged. This kind of service has minimised the influence of currency on global investment decisions.

Passive or indexed investment is moving rapidly from the US, where it is already entrenched, into non-US securities markets. US investors put only around $1bn into passively managed foreign equity funds in 1985: that figure is now around $10.3bn. A mix of active and passive management is becoming more popular with the fund manager choosing to invest in a particular market but then indexing the portfolio to an indigenous index. Increasingly, quantitative analysis is being used to manage foreign securities. Tactical asset allocation, for example, is being more widely used outside the US.

Janet Bush



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JAPAN

An unwelcome reminder

JAPANESE FUND managers rediscovered the US this year. They revelled in the upward surge of the dollar and of stock on Wall Street – then shared in the anxiety of American investors, as the markets dived on Friday October 13.

The huge flow of capital they have directed into American securities markets has been one of the most important elements in the international capital markets, and one of the chief reasons behind the dollar's strength this year.

It goes a long way towards explaining why Wall Street was strong in the spring and summer, and the Tokyo stock market so dull.

The key question is whether this surge in Japanese interest in the US, and to a lesser extent other foreign markets, is a one-off shift in sentiment, or the beginning of a sustained commitment to investing a greater proportion of Japan's mountain of capital abroad.

It is too early to say how this surge in buying will be affected by the current turmoil in the markets. At the very least, Japanese fund managers may hold off until calm is restored. But they have had an unwelcome reminder of how quickly sentiment can change.

Before October 13, it seemed certain that Japanese fund managers had recovered their nerve about investing overseas, after suffering heavy book losses on their foreign securities holdings in the years to the end of 1987, due to the relentless decline of the dollar against the yen and subsequently to the plunge in global equity prices in October 1987.

After dropping to a monthly average of $5.23bn in the 1987-88 financial year, Japan's net purchases of foreign securities recovered in the year to March 1989, to $7.2bn in the year. But this was still well below the $8.25bn monthly average recorded in the year to March 1987. However, since the beginning of the new financial year, the pace has picked up dramatically: net purchases averaged $10.6bn in the four months to the end of July.

In addition to the purchase of new securities, many institutions removed from their dollar portfolios, the hedges which had been put in place last year to protect investments against a further decline in the dollar.

Geographical Breakdown of Japanese Net Purchases of Foreign Equities, 1988 (US$ m)

Country	Total	Share of Total
US	349	15.3%
UK	353	15.5%
West Germany	103	4.5
France	169	7.4
Netherlands	77	3.4
Australia	17	0.8%
Others	1,208	53.1
Total	2,276	100.0%

Source: Japanese Security Dealers Association.

The life insurance companies, the biggest Japanese institutional investors overseas, estimated this summer that they had reduced from 50 per cent to 30 per cent the proportion of their foreign portfolio that was hedged. The buying of dollars by some institutions was so heavy that the Ministry of Finance warned them to slow down, to avoid driving the dollar to unsustainable high levels.

The main reason for this surge in interest in the US was a growing belief that reports of the death of US economic power were rather premature.

The soft landing was seen to be happening. Meanwhile, the gap in interest rates between the US and Japan remained wide – so there was income to be earned as well as capital appreciation on undervalued dollar assets.

Alongside this positive re-assessment of the US was a down-grading of the likely investment performance of the Tokyo markets. Investors took the view that, while the Japanese economy was strong, its power was fully reflected in prices in the Tokyo stock market. Also, the Government'a political difficulties, born of the Recruit financial scandal and the introduction of an unpopular consumption tax, added an unwelcome element of uncertainty into a market which is used to taking political stability for granted.

There is little doubt that many Japanese investing institutions want to raise the proportion of their portfolio invested overseas. While the most active groups – especially life companies – already have 20 per cent or more of their assets abroad, others are well behind, including many pension funds.

For example, this year, four companies – Nikko Securities, Meiji Life, the Long-Term Credit Bank and Tokio Marine & Fire – have announced plans to tie up with US investment advisory companies.

One reason for the mergers is the Japanese determination to learn more about investing in the US. An official at Tokio Marine & Fire said last month that the group intended to raise the proportion of foreign assets in its portfolio from about 10 per cent. The maximum allowed by the Ministry of Finance for casualty insurers is 30 per cent.

There is little doubt that many Japanese investing institutions want to raise the proportion of their portfolio invested overseas

However, the pace at which Tokio and others carry out these foreign investments depends critically on the foreign exchange markets. It seems clear that many institutions saw this spring and summer as a window of opportunity for investing in the US. The investment rate of the last few months may therefore not be sustained. But it could easily settle above pre-crash levels, given that the size of the flow of funds running into Japanese institutions continues to grow, as does the proportion of assets they are investing in securities.

For example, the total assets of life companies has risen by two-thirds, to more than Y100,000bn, in the two-and-half years since March 1987. Over the same period, securities holdings have leapt by more than 80 per cent, to 46,200bn at the end of June.

At home, the main change that Japanese fund mangers have seen in the past year is the appearance of an increasing number of computer-controlled investment funds. While these funds account for less than 1 per cent of Tokyo's capitalisation, they are having a profound effect on the way other funds are managed.

In particular, they have drawn attention to the fact that many Japanese funds have fallen far behind the stock averages in performance in recent years. Some investors have been satisfied with the fact that the returns have been good, by comparison with yields on yen deposits. But others are beginning to look more critically at their fund managers' performance. The Ministry of Finance is also concerned to improve the performance of institutional investors, particularly of pension funds, in view of the steady ageing of the Japanese population.

As a result, it is trying to encourage competition among fund managers and investment advisers, by allowing foreigners more freedom in approaching Japanese institutions for business. But rules still hamper foreign companies: for example, by placing limits on the proportion of a fund that can be invested abroad.

Stefan Wagstyl

EUROPE

Pensions without frontiers

UK PENSION funds and other British financial institutions, such as insurance companies and fund management groups, have been enthusiastic global investors, especially since the then Chancellor Sir Geoffrey Howe suspended exchange control 10 years ago. Control was subsequently abolished.

In the ensuing decade UK pension fund investment in overseas equities has risen from 4 per cent of total assets to 15 per cent.

The accompanying figures paint a very clear picture of the trend of portfolio investment overseas by UK financial institutions other than UK banks throughout that 10-year period.

Fund managers' motivation for such international activity is risk spreading. Exposure to the emerging economies of the Far East and to industries in Japan and the US, which may be far more developed than their UK counterparts, can help to balance a portfolio.

The danger of costly mistakes being made as a result of ignorance has lessened as research into previously obscure markets has become more widely available, but dangers remain for the unwary, especially when it comes to currency risks.

Richard Reid, chief European economist at securities house UBS Phillips & Drew, maintains that increased knowledge and awareness have contributed to the ease with which investors can become involved in previously unknown markets. "Not long ago," he says, "investing in the Peseta would have been regarded as silly."

But the flow of capital is not all one-way. Investment into the UK by overseas institutions and individuals, mainly buying shares in UK companies, has also been on a strongly rising trend over the last decade.

Terry Kirk

Theo Waigel: no withholding tax aboard his flagship

Institutions' portfolio investment overseas

Year	£m
1979	7,107
80	11,858
81	18,299
82	25,327
83	40,233
84	52,090
85	62,261
86	95,261
87	75,464
88	93,348

Source: 1989 edition of United Kingdom Balance of Payments (the "Pink Book").

Nor is the UK the only focus of attention for capital movements. Chancellor Helmut Kohl is on record as rejecting any type of protectionism, and the recent history of German capital outflows, as indicated by the following figures from UBS Phillips & Drew, showing German net investment in foreign securities, has been attracting great interest: *1986, DM21.3bn; 1987, DM24.9bn; 1988, DM 72.8bn.*

The massive leap upwards in 1988 was triggered by former German finance minister Gerhard Stoltenberg's announcement of a 10 per cent withholding tax on investment in government bonds. The tax lasted only for the first six months of 1989 before being abolished by the present finance minister, Theo Waigel, in a move which was regarded as the flagship of his economic policy.

Interestingly, German capital outflow has slowed to DM30bn in the first half of 1989, of which the bulk was in the first three months of the year. But no one is assuming the withholding tax created merely a temporary phenomenon of capital outflow. Richard Reid says: "It's a shift which won't go away."

This is a view shared by Dr Axel Siedenberg, first vice president and senior economist at Deutsche Bank. Dr Siedenberg argues that, in a world where G7 and the EMS influence exchange rates, money will flow into high-yielding currencies as soon as the market accepts it as prudent to do so. With Germany, there is the added capital outflow impetus of a high current account surplus.

According to Dr Siedenberg, strong capital flows are a sign of preoccupation with the 1992 single market. He expects to see an increasing number of companies operating on a Community-wide basis, either as a result of acquisition, joint venture or building new factories.

Dr Siedenberg virtually rules out any prospect of the 15 per cent European Community withholding tax, which was being canvassed earlier this year.

Looking at the EC as a whole, only Denmark and the UK are entirely frse of exchange controls. Belgium, France, Germany, Italy, Luxembourg and the Netherlands, retain controls which are due to be swept away by July 1990 in line with the Council of Ministers' Directive on the free flow of capital. Greece, Ireland, Portugal and Spain all have until 1992 to dismantle their exchange con trol mechanisms. In practice, some controls for these countries may remain in force until 1995.

Examples of the type of controls which still exist are: individuals in France may not hold foreign bank accounts or hold foreign currency accounts in France; in Germany, the purchase of some Treasury bonds by non-residents requires approval; and payments to non-residents of the Netherlands exceeding Fl 5,000 have to be notified to the central bank.

The free flow of capital throughout Europe has major implications. Mr Arun Aggarwal, a consultant with Price Waterhouse, claims the French are worried that tax-dodgers will place money outside France when exchange controls are demolished. He points to the British experience of a decade ago, when massive outflows were accompanied by a worldwide realisation that the UK had become an attractive home for foreign money. He expects Japanese and American investors who previously found France unattractive to see things in a different light when exchange controls go.

Mr Aggarwal does sound a cautionary note when he says Europe as a bloc is likely to see much more movement of funds, especially as there are no plans to harmonise tax or interest rates. The flow of funds looks likely to become more volatile.

But there is no prospect of turning the clock back. If a country is forced into overseas investment, as the Germans feel they were by their short-lived withholding tax, then they build up experience of foreign investment risks and currency management, which they won't subsequently give up simply because they could stay at home if they wished to.

The removal of other Euro-barriers will also have an impact on the free flow of capital. If free mobility of labour becomes a reality, there will be many more people building up pension rights in countries other than their own. This will create multi-currency liabilities which will require multi-currency investments. Similarly, expatriate workers will become more international in their outlook and will demand a more global perspective in their own investments.

Peter Gartland

Editor, The International, the FT's magazine for global investors

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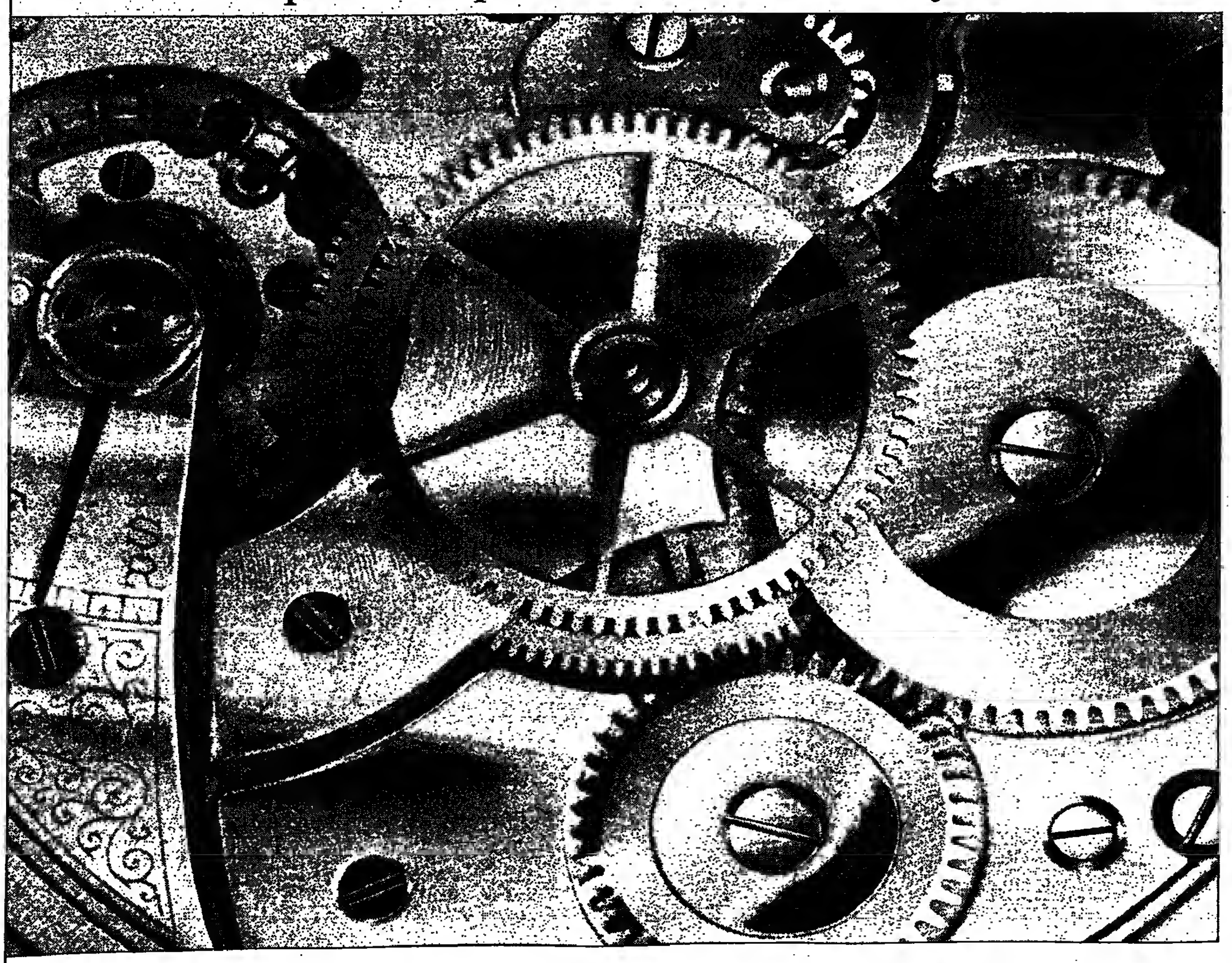

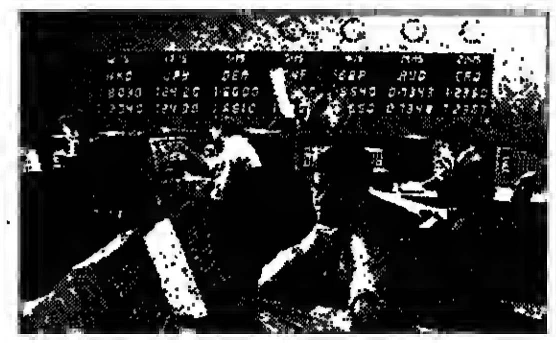

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BONDS

The US as a model

THE UK institutional investors' obsession with equities has continued, and even intensified, over the past year or so, despite the growing number of advisers making a case for investment in bonds.

The dominance of shares in the portfolios of UK pension funds is a function of their liabilities, still overwhelmingly final-salary related. The only way for them to be assured of the real rate of return they require is in the equity market. While UK insurance companies traditionally devote somewhat more of their portfolios to bonds, their investments are still overwhelmingly devoted to equities.

This concentration in equity was further exaggerated even in 1987, the year of the crash, to such an extent that a reversal soon, or at least a flattening out, of the trend seems now almost inevitable.

According to Mr Neil Curtis, of Daiwa International Capital Management, the weighting of bonds in UK pension fund portfolios has dropped to 9 per cent, and is still falling. This has increased investment risk, he says, without any resultant reward. Elsewhere in the industrialised world, bonds account for a significantly larger share of institutional portfolios, partly because investors did not experience the same kind of attack that inflation wreaked in the 1970s on the value of sterling bond investments.

In the US, the greater importance of "money purchase" pension and insurance objectives has meant that, historically, US bonds have taken a significantly larger share of institutional portfolios. Currently, they are said to be running at about 40 per cent devoted to bonds. According to Mr Terence Prideaux, of Kemper Investment Management, in London, US fund managers will increasingly seek to reduce the volatility of their portfolios through international diversification in bonds.

In Europe and Japan, the shares of institutional portfolios devoted to bonds are even higher. In some countries, such as Japan and the Netherlands, many funds have fixed, and relatively low, annual yield objectives which are best accomplished in the bond markets.

Even when fund managers are convinced of the necessity of bond investments, the case for international diversification is much harder to make in the fixed-income area than for equities.

It is now widely accepted that international diversification in equities allows investors to unlock growth areas abroad that do not exist at home. By contrast, in the medium term, any yield advantage to be gained by diversifying into foreign bonds is assumed to be lost by future currency movements. In other words, the higher coupons available in some foreign markets is offset by the expectation of currency depreciation. Currency risk also means that there is a loss of certainly about capital preservation.

However, some fund managers are arguing that, both from a tactical and strategic point of view, there may be advantages in buying foreign bonds.

The first problem facing any UK manager wishing to move into bonds is the shrinkage of

A UK manager moving into bonds faces the shrinkage of the gilts-edged market

the gilt-edged market caused by the Government's budget surplus. This has called into question the long-term liquidity of the market and reduced the availability of appropriate sterling investments.

This is not the only reason cited, however, for a diversification of bond portfolios. Looking back over the last three to seven years, to the end of last year, a diversified international bond portfolio has produced greater returns than a similar gilts portfolio for the same risk. Moreover, for some periods, a diversified bond portfolio has produced a greater return than one in international equities.

While, longer term, investments in equities will outstrip bond returns, many fund managers — or the corporate finance directors who govern them — have a shorter-term decision horizon. Their performance will be assessed not over a lifetime but over a four to five year period, where the greater income that bonds provide can prove to be of more importance. Diversification into less volatile bond markets reduces the risk of a sharp drop in portfolio values in the case of a stock-market collapse.

Investing in overseas bonds obviously holds the potential for currency gains (and losses), which can quickly outweigh the benefits from any increase in yields.

However, currently, a bond investor based in sterling can run a fully-hedged foreign bond position and exceed returns on sterling long-term bonds. This, in the words of Mr Paul Abberley, of Lombard Odier, is the "icing on the cake" for those UK funds diversifying into overseas bond markets now.

To do this, a manager will, in effect, make use the current steeply inverted yield curve in sterling. With sterling bonds yielding say 10½ per cent, it is possible to switch into Deutsche Mark bonds yielding 7 per cent. This D-Mark exposure can then be hedged six months forward, to remove the exchange rate risk in the foreign exchange market. Since short-term forward rates are directly related to short-term interest rates (where interest differentials are greater than in long-term bonds), this yields a further 6-7 per cent. Total sterling returns are thus 13-14 per cent, compared with 10½ in a simple sterling bond investment.

Further down the road, as the change in UK pension laws seems likely to push the system more towards "money purchase" and away from final-salary linked investment, the bias seems likely to shift more to bonds, following the American model. Similarly, eventually, the rather anachronistic practices of fund managers in Japan and some other countries seem likely to change as better performance is sought. Again, the US example is the one that one might expect to see followed.

Indeed, some US advisers argue than, eventually, a more uniform environment will exist internationally for institutional investors, which will, in the long-term, push all of them perhaps closer to the US mix of equity and bonds.

Stephen Fidler

PROPERTY: the market is becoming more international, and . . .

The impact can be profound

JAPANESE institutions have been the most closely watched in the international property markets, as the decisive influence they have had in selected US cities has spread to Europe.

But the steady activities of Europeans in the US markets, cross-border investments within Europe itself, and some indication that US investors might expand into Europe, have served to emphasise the increasing internationalisation of the market.

Yet this international quality remains largely bilateral. Except in cases like Rodmaco, the Dutch-based open-ended fund, where money is drawn from several countries and disbursed in others, the international quality of the market is largely a question of a fund in one country investing in another.

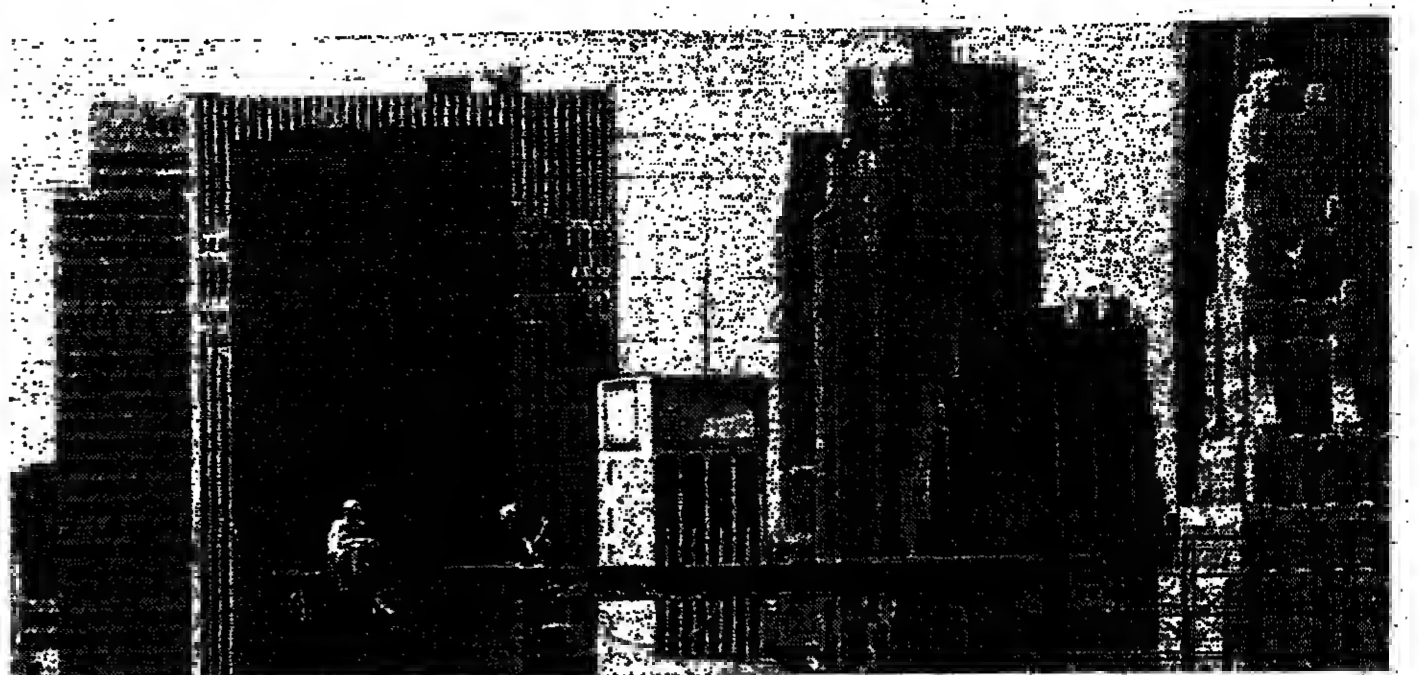
The motives are usually the weight of money coming in, frequently the limited opportunities for domestic investment and the desire to spread risks, to find safety in diversification.

But foreign investment by any fund requires a willingness to grapple with different legal systems, acquire different market expertise and accept currency fluctuations. There are few willing or able to take this trouble, especially given the lumpy nature of property as an investment — large slabs of money tied up in investments which are not always easy to liquidate.

As a general point, the ingenuity that has been applied to the creation of international debt instruments by the banks has not been applied to the sale and purchase of direct property investments. It is not that easy to make investments.

Not surprisingly then, fund involvement in international property is limited, and likely to remain so until there are more widely traded forms of securities based on property. In this connection, of course, it is a lost opportunity for the London market that, first, the attempt to devise single property ownership trusts should founder on tax grounds; second, the idea of the property income certificate should fade away; and third, there is scant interest in single asset property companies.

But because property investment remains essentially a domestic affair, involving the



Manhattan is an important ingredient in the Japanese property fund managers' cocktail

movement of quite large sums in a series of town and small markets, the impact of the foreign fund in a specific market can be profound.

This has already been established in the US. Last year, according to figures compiled by Kenneth Leventhal, accountants, total Japanese investment in US property was over $16bn, of which some $5bn came from insurance, investment, securities and financial companies. Total Japanese investment in US property had reached nearly $43bn by the end of 1988.

But parts of the investment — and here the long-term institutional players have had a significant role — have been strongly concentrated on areas like downtown Los Angeles and Manhattan, effectively creating a two-tier market. Japanese institutions have been prepared to buy properties of narrower yields than had been the habit of US buyers.

On a similar theme, the influx of Scandinavian buying in the Brussels market last year had the effect, over a period of about three months, of shaving half a percentage point off the prevailing yields.

And the presence of both Scandinavian and Japanese buying in the central London (especially the City) market has held yields down to 4.5 per cent. This buying came at a time when the caution of domestic institutional investors and a shift in the supply-demand situation would have suggested that yields had widened.

The weight of Japanese funds is heavier than that of the Scandinavian. But over the last year the two have brought a new stimulus to the main European markets. In Germany, they have been forced to compete with aggressive buying from the open-ended domestic funds. In France, their interest has coincided with that of selected funds from the UK and Netherlands, not to speak of property companies. But in the UK, the Japanese have almost become *the* market for central London properties worth more than £50m.

The genesis of this investment, on the Scandinavian side, has been the relaxation of Swedish exchange controls. This took place in phases allowing first, in 1988, the entry into the market of the construction and property companies and more recently, this year, the direct investment by institutions. But, in both cases, the springboard has been a relatively narrow domestic market with few remaining investment opportunities.

For the Japanese funds, the movement into Europe has been a natural extension of their investment in the US. As more money has become available from burgeoning premium income, the desire for greater diversification of investment among insurance companies has clearly become irresistible. There is little surprise in this. It has been widely known that the Japanese funds have been undertaking serious research into the different European markets for the last two years.

Their impact has been marked, especially in London where purchases over the last year by Nippon Life, Dai-Ichi Mutual Life, Sumitomo Life, Yasuda Mutual Life, Asahi Mutual Life and Meiji Mutual Life totalled nearly £500m. Given that the Japanese funds rarely sell a building once they have bought it, and hence do not have to worry about exit yields, they can afford to take a longer view than most British institutions. Indeed, some British institutions have used the firmness of the market as a chance to disinvest.

British institutions have traded their property more aggressively over the last two years, but they have not fulfilled the expectations of many after the equity crash of 1987 that there would be a strong move back into property. This, despite the abnormally high returns in the investment — averaging over 30 per cent in 1988.

Among the funds measured by the Investment Property Databank, net property investment was the lowest of the decade last year. In the first quarter of this year, property investment as a percentage of total cash-flow came to 1.2 for all types of pension fund and 22.4 per cent for life assurance companies.

There has been consistent concern among the institutions about the illiquidity of property investment. While this has not deterred some of the traditional investors, like Norwich Union and Prudential Portfolio Managers, there has been scant motive for those who had run down their investments during the early and mid-1980s to build them up again. The market remains too long term for those who are measured on their short-term performance.

Paul Cheeseright

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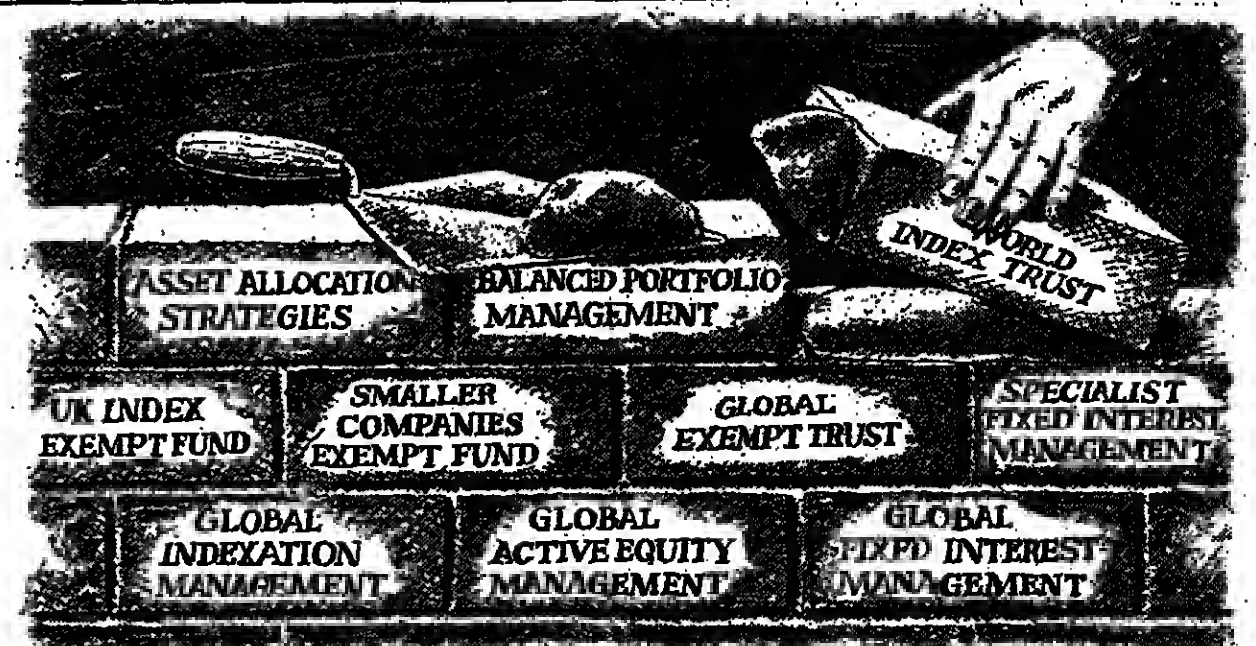

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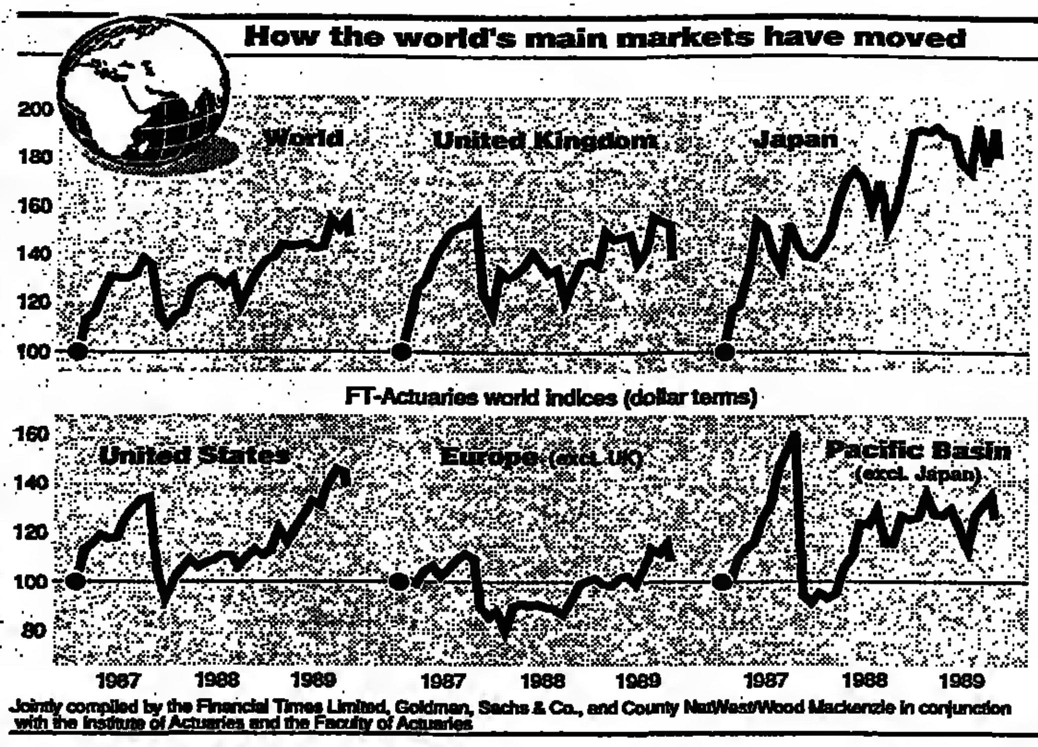
EQUITIES: If 1989 is a record year for foreign investment, Europe and the Pacific rim are main beneficiaries, says **Hilary de Boerr**

Japanese strength keeps investors on their toes

How the world's main markets have moved



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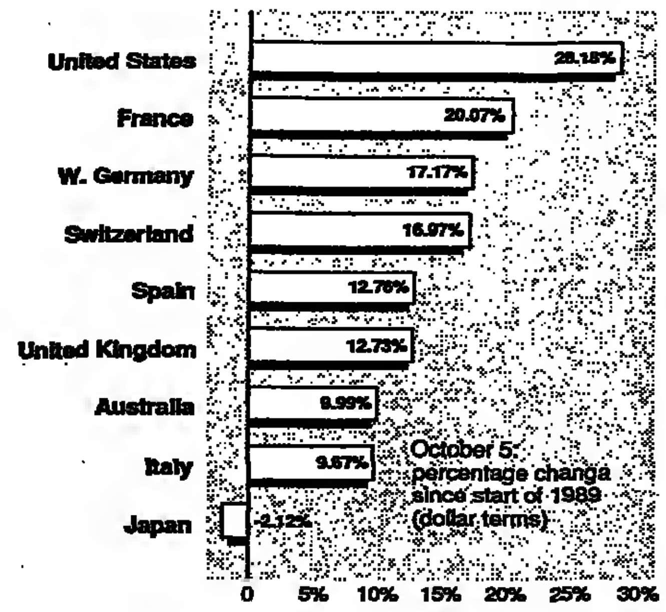

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Many people in the US still hope for a soft landing

INTERNATIONALISATION of equity investment continues apace, with October 1987 proving to be a temporary interruption to an inevitable phenomenon.

The increasing liberalisation and harmonisation of global stock markets – incorporating a growing number of emerging exchanges – has encouraged cross-border investment. The need to diversify, to spread risk and find added value, has necessitated it.

Investment in foreign equities is forecast to reach as much as $50bn net this year – a record – compared with $21bn last year, according to Salomon Brothers. By 1995, the figure could be $100bn rising to $425bn by 2010, says the US investment bank.

If 1989 is to be a record year, continental Europe and the Pacific rim look likely to be the main beneficiaries of new cross-border flows. Japan is losing foreign friends and so, too, is the UK.

Global equities have put in a patchy performance this year – notwithstanding this month's upset. The World Index rose 19 per cent in the first nine months, held in check by the poor relative performance of its largest member, Japan.

By the end of September, Japan was up just 12 per cent, compared with gains of 24.5 per cent in the US, 26.6 per cent in the UK, and 22.3 per cent in Europe ex-UK, in local currency terms, according to the FT-Actuaries World Indices.

Much of the gain in the World Index came in the third quarter, which proved to be its best quarter since the start of 1988. Last year, the world index edged up by a miserly 0.2 per cent in the third quarter.

The might of Japan, which accounts for 42 per cent of the market capitalisation of world equity markets, has kept investors on their toes this year, as last.

Investment strategists have turned decidedly bearish on the far eastern market, as inflation there rises and the dollar maintains its strength. A lot of money has thus gone back into the international equities pot for redistribution elsewhere.

International investors dumped a net $6.2bn worth of Japanese equities in the second quarter of this year, according to Salomon, after buying strongly in the first three months when net purchases reached $9bn. That compares with total net inflows worth $6.8bn for all of last year.

Both the UK and the US appear to have benefited from Japan's recent loss. The UK market took in a net $3.1bn of international investors' money between April and June – after just $340m in the first quarter – while a net $4.5bn flowed into the US in the second quarter, after first-quarter takings worth $389m.

The US found favour as gloom over a hard landing for the country's economy turned into hope of a soft landing – although there is growing concern about corporate earnings growth.

The UK benefited in the first three quarters from bid activity and improved institutional liquidity levels – helped by a low exposure to bonds as the British government repurchases debt – although caution has crept back in.

Continental European stock markets and smaller exchanges in the Pacific rim have been receiving lots of attention as individual markets there outperform the rest of the world. Austria soared by 77 per cent in the first nina months, Singapore by 31 per cent and Malaysia by 41 per cent.

The attraction of the continent lies in 1992, when a single European market will be formed. European stock markets grabbed most of the new money flowing into international equities last year, with 62 per cent of such funds finding their way into continental European equities, according to Salomon.

A similar scenario is expected this year, says Mr Michael Howell, Salomon's investment strategist in London. "The amount of new issuance in Europe has picked up extremely strongly this year, and that is against a background of strong growth in continental stock markets. New issuance hasn't dented the performance (of equities) and so there must be a fairly ready demand for stock."

The Pacific rim, meanwhile, is favoured for its high economic growth rates, good company earnings outlook and financial and economic liberalisations. Much of the interest has been coming from Hong Kong, Britain and Germany.

Most of the big money, howevar, continues to chase the larger mora established markets. And, of the big buyers, the US and the Japanese have been most active of late.

Salomon's statistics show that both US and Japanese investors stepped up their buying considerably after an inactive first quarter. Japanese investors bought a net $6.1bn worth of foreign equities between April and June, after selling a net $104m in the first three months.

The Japanese were especially keen on the US stock-market in the second quarter, when they bought $1.9bn net of US stocks. That represented a sharp reverse from the first quarter, when they sold off US equities worth $1.5bn in value.

US investors, meanwhile, more than doubled their net purcbases abroad – reaching $4.4bn in the second quarter, after $1.7bn in the first quarter. That compares with net sales worth $252m for the whole of 1988.

The US money has been targeted especially on Europe, and even there on specific markets. US Erisa funds and US international performance funds – which together manage $120bn, or about an eighth of all international equity investments – redneced their second quarter weightings in both Japan and the UK, the latter by more than 8 per cent.

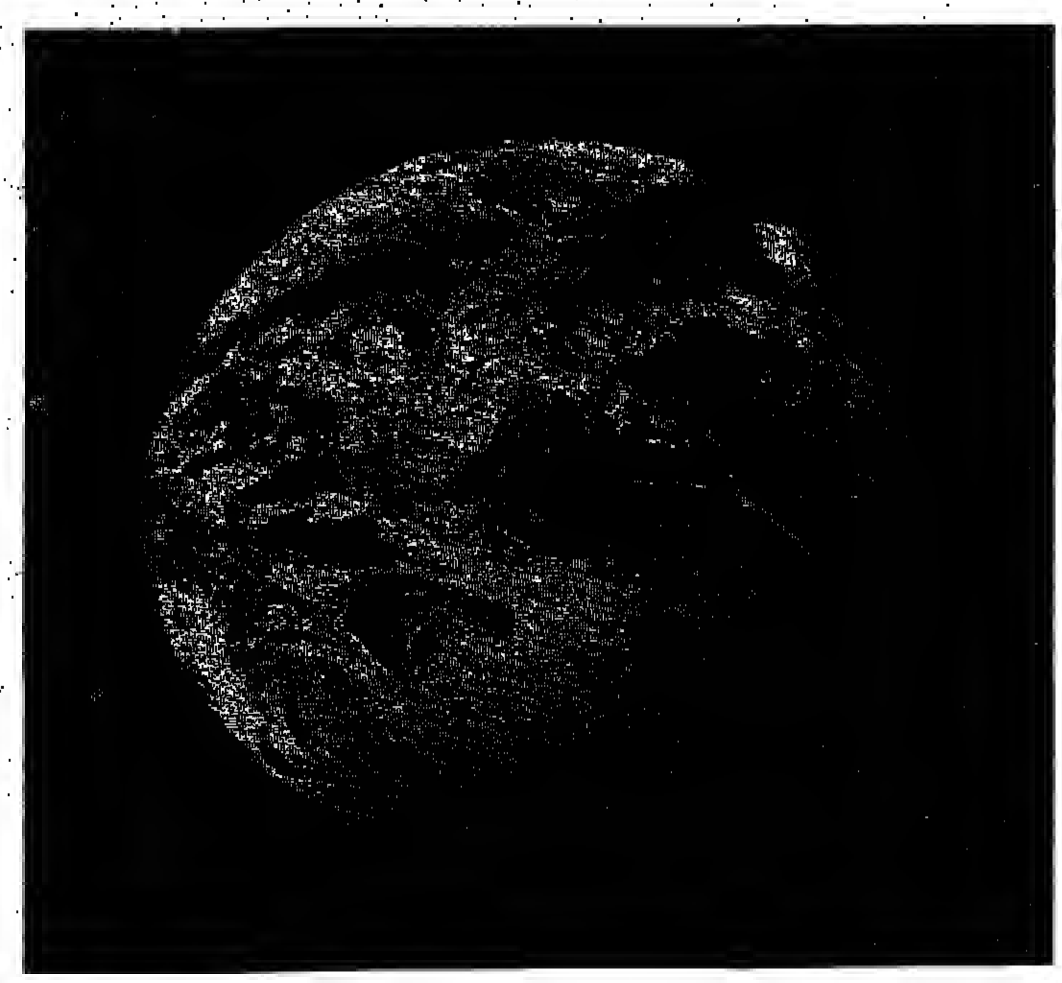
France, Spain and Switzerland saw increased investment from the US funds, with Switzerland especially popular as weightings there rose by an average 25 per cent.

The US found favour as gloom over a hard landing for the country's economy turned into hope of a soft landing . . . Meanwhile, the UK has benefited from bid activity and improved institutional liquidity levels, although caution is now creeping back in

Projections of the International Equity Market, 1988-2010E (US$ m)

	1988	1990E	1995E	2000E	2010E
Net Equity Flows	21.1	55.0	95.0	150.0	425.0
Foreign Equity Assets	645.0	850.0	1,700.0	3,250.0	10,750.0
Gross Equity Flows	1,212.6	1,550.0	2,500.0	3,900.0	12,850.0
Turnover Ratio (Implied)	1.9	1.8	1.5	1.2	1.2

E Estimate
Source: Salomon Brothers



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Katharine Campbell on the growing range of derivative products

Still no substitute for skill

IT IS a brave soul who can put his hand on his heart and quantify the degree to which the performance of his fund has been enhanced by the inclusion of derivative products among the array of investment tools at his service.

But evidence of the growing acceptance of – or, at the very least, curiosity about – the expanding world of equity-related futures and options among international fund managers is incontrovertible.

"One is missing out on a major source of information as to where and how fast money is moving if one disregards the derivatives markets," said Mr Michael Baines, who is in charge of derivatives products at Fleming Investment Management.

No one is any longer pretending that the invention of stock index futures portends the ultimate job insurance for a fund manager, or that he can successfully hide a lack of other skills behind a bank of Black & Scholes options valuation models.

But derivatives do provide an extra dimension in which to work, and this flexibility can be used constructively.

Over the past year, the range of products available has expanded rapidly, and the growth seems set to continue. This is true both in the realm of exchange-traded products, and in over-the-counter markets. The dominance of the American exchanges has receded slightly, as other countries have developed home grown products, although the Japanese market has arguably yet to fulfil quite the fantastic promise it has held in the minds of many.

In just over 12 months, the Japanese have introduced futures and cash-settled options based on the Nikkei 225 and the broader Topix index. Daily turnover on the two futures contracts amounts to an equivalent $7 or $8bn a day, although the options contract is less active.

Despite these apparently impressive figures, international fund managers advise caution in over-interpreting the scale of activity. For one thing, they stress that liquidity is virtually confined to the "near month" contracts, so that prices are hard to come by in the contracts of a longer maturity.

Also, it is in large measure the Japanese system of margining that makes for a considerably heavier daily turnover than is customary in other markets. Whereas futures participants are customarily allowed to withdraw funds from positions that are showing a profit, the daily mark-to-market procedure in Tokyo does not permit the realisation of paper profits, so that the only way to obtain cash funds is to swallow the market risk, and close and reopen positions.

Derivatives provide an extra dimension in which to work

Fund managers are currently more optimistic about the prospects of the smaller index option that was launched in Negoya in mid-October, because it offers a rather different way of managing the risks of the Japanese stock market.

The option is based on a basket of 25 blue chip Japanese stocks that are listed in both Negoya and Tokyo – very much modelled on the American major market index. It also has a European-style exercise, which means that it can only be exercised at expiry, thus reducing the premium.

Brokers have pointed out that the product would make a particularly attractive hedge for investors who want to buy a geared warrants portfolio, but wish to purchase relatively cheap downside protection, which, some enthusiastic salesmen claim, might be the ideal vehicle for investing in Japan.

While much of the interest in new derivatives activity has been focused towards Japan in recent months, the European market has been proceeding apace, too. It has rather suddenly become accepted wisdom that a financial centre with any pretensions at all requires at least one futures and options exchange. Often, the first contracts to be introduced are based on equity instruments.

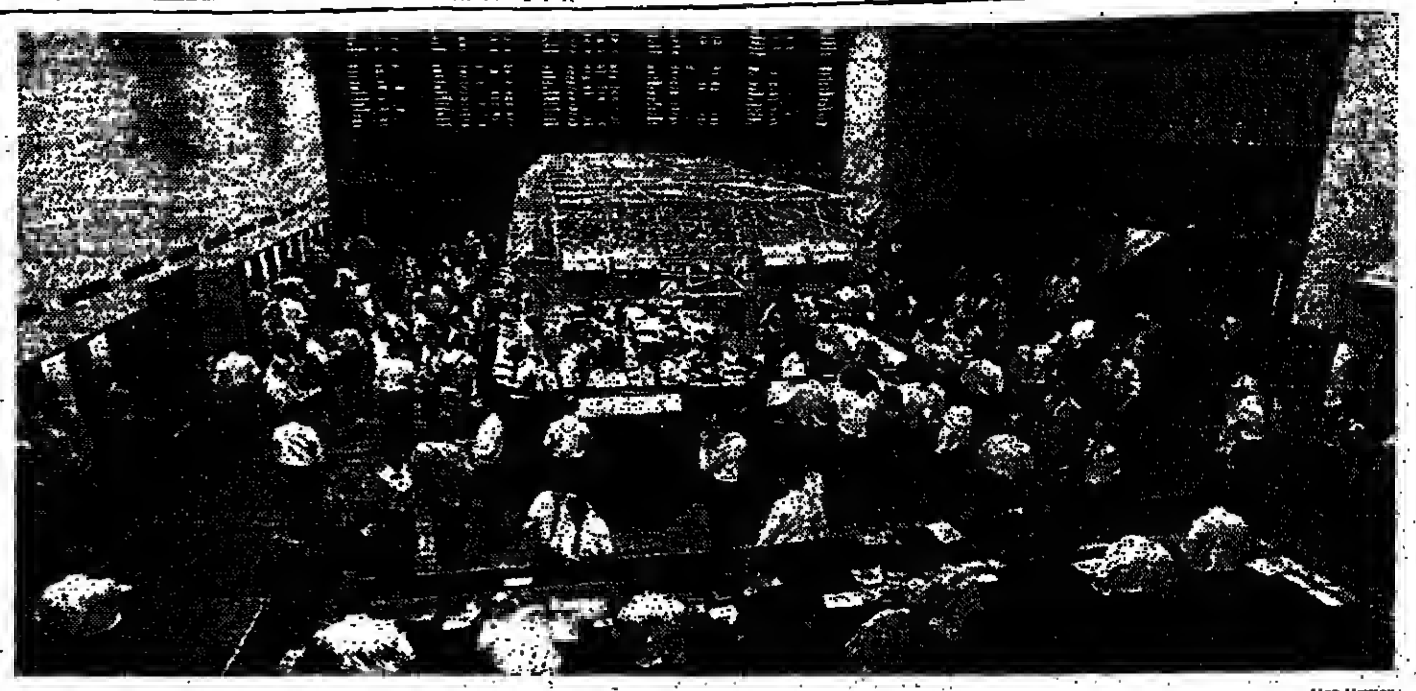
This was the case with Soffex, the 18-month-old Swiss market, which has well exceeded all volume estimates (including those of the technicians), and has attracted a strong following from domestic fund managers. At the same time the Deutsche Terminbörse will open in Frankfurt in January, initially to trade individual stock options and a stock index product. Of no fewer than three planned derivatives markets in Spain, one of the more likely successes is the one being poineered by the Madrid stock exchange.

Even more noticeable was been the growth in over-the-counter products. Much has been attributable to the application of derivatives technology developed for interest rate products applied to equity-related derivatives. The public face of this market has been the issuance of warrants on major indices – notably, the Japanese, British and American markets – but far larger volumes have been transacted through private deals, customised to the individual needs of fund managers. These have included long-term options on individual stocks as well as on indices.

There has been a particularly attractive arbitrage, which major fund managers have exploited for a while, and which lies in the essentially bullish nature of Japanese investors with regard to their domestic market. As noted in a recent research report by Baring Securities: "The price reflects perception more than the mathematics of option pricing." Essentially, the Japanese are prepared to sell uncovered put options, which have allowed European investors to take advantage of almost free downside protection, commonly for a period of two or three years.

Those institutions that remain cautious of this burgeoning market justify their decision on two grounds. First, the credit exposure to the financial intermediaries is a concern that does not arise with exchange-traded products, where counterparty risk is virtually eliminated through the clearing house guarantee. Second, they argue that the after market is insufficiently liquid to ensure that purchasers obtain a fair price if they wish to unwind positions before the agreed term.

Both arguments, however, were applied to foreign exchange and interest rete options products before the interbank markets grew to their current size. There are plenty of participants who assume the same evolution as regards equity derivatives.



Alan Harper

The Frankfurt stock exchange: in January, the Deutsche Terminbörse will open in another part of the city, initially to trade individual stock options and a stock index product

CURRENCY HEDGING

Now equity managers cut the risk

IT WOULD be something of an exaggeration to say that debate ever raged on the subject of currency hedging for international portfolios – like other arguments in the fund management business, the relative merits of such hedging appear to depend more on who you talk to than on any objective criteria.

However, most international portfolio managers admit that they now routinely consider or employ currency hedging techniques of one sort or another – after the gyrations of the dollar in the 1980s this is hardly surprising. Where there is considerable difference is in how they explain that hedging and in the relative importance they assign it.

Hedging the currency exposure on international fixed-income portfolios is as old as the idea of international diversification, and as well established. Specialists in bond management are used to thinking about currency as an integral, but separate, part of their asset allocation process.

In recent years, however, the gradual extension of this principle into international equities management has marked the most profound development in attitudes towards currency hedging.

As recently as last year, outside the US the idea of systematic hedging of international equity exposure was still confined in the domain of specialist researchers and a few boutique fund managers.

A research paper in July 1988, by Lee Thomas, then of Goldman Sachs and now of Investcorp, makes a good case in point. He examined the performance of currency-hedged international equity portfolios and came to some strong conclusions. Using performance data from 1975 to mid-1988, the report declared: "Currency hedging offered an equity portfolio manager almost the same amount of risk reduction as did diversifying abroad in the first place. Furthermore, this reduction in volatility did not require using sophisticated hedging instruments or strategies."

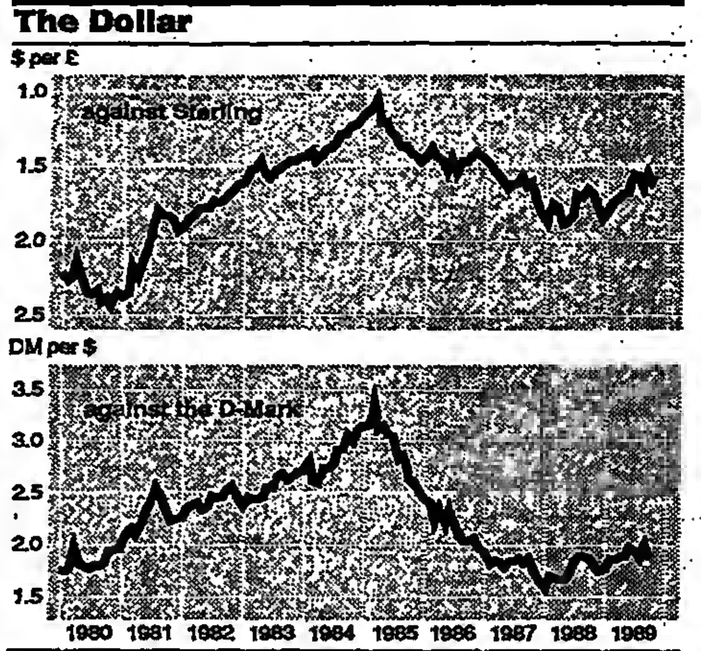
However, the report also noted that it was not the case that portfolio managers should always hedge. Thomas argued that a manager with strong views on the performance of particular foreign currencies might wish to express those views by remaining unhedged or partially hedged.

"The point is, in the end – whether you hedge or not – as an active manager you should always evaluate the currency composition of your portfolio and consider hedging," the report concluded.

Most pension funds operate only the simplest hedging techniques, usually covering their overseas exposure by selling the currency forward against their base currency. Indeed, many UK funds have refused to allow their managers to set up even this basic cover.

William Macdougall, director of international fixed-interest funds for Hill Samuel Investment Management, says: "Plenty of client agreements stipulate defensive hedging, but few allow for naked forwards or cross forwards. We are constantly encouraging trustees to think in terms of the total portfolio and to take steps to achieve optimum currency exposure."

The Dollar



Nevertheless, says Macdougall, there is still a tendency for many UK funds to shy away from hedging, because they associate the term with speculation. Persuading clients that they can manage their risk using simple hedging techniques is partly a matter of stressing the prudence involved.

On balance, however, hedging is gaining acceptance as performance figures for hedged funds show that the risk reduction and the returns more than justify the expense of the hedge.

Indeed, most active fund managers now incorporate thinking about currency hedging into their equity asset allocation process. Many, like Hill Samuel and Lombard Odier, treat currency as a separate asset class.

Daiwa International Capital Management (DICAM) uses an asset allocation process which brings in currency at several stages. After deciding the relative weightings of bonds, equities and cash, DICAM makes a country allocation which involves assumptions about future interest rate and currency movements.

Then detailed stock-picking follows. Currency is a factor here, with the relative merits of, for example, companies which earn most of their revenues from exporting and those relying on imports being taken into account.

"Finally, we look at currency in its own right as an overlay to the whole portfolio," says Neil Curtis, DICAM's director of client services. "If we think it is appropriate, we will then weight our exposure using hedging towards the investor's base currency. For example, currently, we are 60 per cent hedged towards the US dollar."

An important point to make is that this sort of hedging is strategic rather than tactical. It relies on long-term views about currency performance, and usually hedges are set with a time horizon of at least six months or a year.

In that sense, hedging is really a simple extension of the asset-allocation process. Successful strategies come from calling the big movements correctly, rather than from piecemeal activity.

Fund managers can engage in more active hedging programmes on a tactical basis, but this is where the line between genuine hedging and active currency management becomes blurred.

For example, many fund managers which accumulated a good in-house track record in hedging decided a few years ago to develop their experience and launch managed currency funds, which concentrate entirely on forecasting exchange rate movements.

As to whether forecasting currency movements is a valid and worthwhile exercise for active equity fund managers, this remains a question of individual taste, rather like chartism.

Hedging is gaining acceptance, as performance figures for hedged funds show that the risk reduction and the returns more than justify the expense

Pension fund trustees are regularly shown charts appearing to prove that fund managers successfully called every significant move in a currency cross rate over a given period. The real point about forecasting is that no one will be right all the time, but a good call can do wonders for a portfolio's overall return. The ultimate argument in favour of hedging must be that it involves a bet with a very small stake, with the potential for significant pay-offs if the bet is right.

Andrew Freeman

GUINNESS FLIGHT

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UK Equities	Overseas Equities	UK Bonds	Overseas Bonds	UK Index-Linked	Cash/Other Investments
61.4%	21.0%	7.5%	1.3%	1.4%	7.3%

Source: WM Pension Fund Index, Weighting (excl. property) 30.6.89

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INFORMATION SYSTEMS

'Computers will tackle the routine chores'

A GALAXY of new, computer-based business tools is coming to the aid of the hard-pressed investment manager. The range and variety goes far beyond the simple information distribntion systems, like the International Stock Exchange's Topic service or Reuters raft of price and news services.

The new tools include aids to making better decisions, based on the techniques of artificial intelligence.

For traditionalists in investment management, there is inevitably a price to be paid. According to a new study of the use of computers in investment management by James Essinger and Joseph Rosen*,

James Essinger

the new technology is set to make the traditional function of investment managers redundant within five years.

James Essinger says his conclusions are based on discussions with investment managers, heads of information technology departments at investment management firms, and key suppliers of financial systems.

"At first we had expected to find that the main application of technology in investment managers' offices would be to simply routine administrative chores, such as portfolio valuation, client reporting and accounting procedures," he says. "Although they are certainly using technology to help with these chores, we were surprised to learn that many firms, particularly in the US and Japan, were already deploying computer systems so advanced that they were clearly altering the traditionally perceived function of the investment manager."

The Essinger and Rosen study, one of the first and most detailed of its kind, sets out a number of conclusions, based on developments already well in evidence in the US and Japan and certain to be seen shortly in Europe and the rest of ths world.

First, there is a trend towards more complex technology. Simple, real-time price feeds of the kind traditionally offered by Topic, Renter or Quotron are giving way to systems which offer "decision support."

The study distinguishes hstween decision support systems which simply present information in a useful way and those which offer sophisticated calculation facilities.

Second, it argues that great advances can be expected in

Advanced decision support technology is promoting a fundamental change in the nature of investment management

the capacity of expert systems to assimilate and process financial information.

Expert systems are a comparatively new kind of computer system, based on the methods of artificial intelligence. The sxperience of acknowledged experts in a particular area can be stored in the memory of a powerful computer. Sets of rules are used to generate answers to questions, in such a way that the whole systems appears to be reasoning in a human-like way. It can explain how it arrives at a particular conclusion.

However mnch investment managers may find this prospect unappealing, it seems an inevitable development. Essinger and Rosen quote James Davies, managing consultant at Citymax, a London-based systems house:

"I think it very likely that, in the future, we will see an increasing tendency for investment managers to focus on long-term strategic objectives and leave mnch of the day-to-day management of their portfolios to highly sophisticated compntsr systems that can not only alert the human manager when necessary bnt also make extremely reliable decisions of their own on matters such as stock selection and asset allocation."

In other words, advanced decision support technology is promoting a fundamental change in the nature of the investment management profession. With the day-to-day tasks relegated to the computer, a greater emphasis will be placed on investment managers' skills at msdium to long-term strategic decision making, and on their interpersonal skills at dealing with clients and at selling the investment management firm and new investment opportunities to clients.

An example of an artificial intelligence system being used in the US for investment management is the "Intelligent Portfolio Manager" system, used in New York by a leading private client firm Associated Family Services (AFS).

The AFS system takes in a variety of price information in electronic form, especially the prices of the Standard & Poor's 500 stocks. It carries out a range of calculations involving both a knowledge base (the store of expert opinion) and pattern recognition. The result is a list of stocks which show, to AFS managers at any rate, favourable investment characteristics.

Expert systems for investment management are already the subject of an "Esprit" contract.

Esprit is the European Communities programme for promising technologies. The participants in the investment management project are: the UK systems honss Citymax; University College, London; the Dublin stockbroker Riada & Co; and the Paris software house Dataid Engineering. The project focuses on initial portfolio design and response to

Joseph Rosen

ongoing events.

It has already led to four prototype systems – a system for the initial composition and day-to-day review of equity portfolios; a system which can be used by analysts to construct and run numerical forecasting models; a gilt-switching adviser and a personal taxation adviser.

These technologies, and associated methods such as compnter-assisted trading where computers are used to help rebalance or sell entire portfolios, are complex examples of information technology in use to secure competitive advantage and are prey to all the pitfalls that such projects entail.

Essinger and Rosen warn of the need to obey the ground rules that experience has shown have to be followed if a major IT project is to succeed.

These include a need for active recognition and support by the company's senior management, a synchronisation between business strategy and IT strategy, and an awareness on the part of the IT staff of what the business of the firm is all about.

Snpplirs of advanced systems for investment management include Renters, whose Art 2000 has been launched specifically with fund managers in mind. In addition to all Reuters real-time price information, it includes a portfolio valuation function, a graphics capacity, news, screen "windows" and a customisation facility. Reuters' competitors Quotron, Telerate, Datastream, ADP Broksrage Information Services, Telekurs and the Japanese stock price service Quick have or are developing decision support capabilities.

Advanced decision support services are provided by software houses, which are inevitably less well known than the principal information vendors. The list includes Barra and Global Advanced Technology Corporation of the US, and Financia and Investment Data Services of the UK.

**Advanced Computer Applications for Investment Management; £85, Elsevier Advanced Technology, tel 0865 512242 (UK); (212) 989 5800 (US)*

Alan Cane

ASSET ALLOCATION

Indexing catches on

THE GLOBAL investor's search for the perfect investment cocktail is an increasingly complex affair.

Post-crash, all eyes are on the relative performances of fund managers. And with an abundance of investment products and techniques on offer, asset allocation is a far cry from the etraight-forward stock-picking of yesteryear.

Asset allocation is the daunting task of deciding where money is to be invested, and how. The choices seem endless: financial instruments, ranging from cash to bonds and equities and taking in derivatives like convertibles, warrants and traded options; regions that cover the main financial centres, as well as the more risky emerging markets; and investment techniques that span the spectrum from active to passive management, using internal or external managers.

Most international fund managers have failed to match equity index returns in the past five years, and performances – both good and bad – are increasingly being monitored. So the search is on for a useful asset allocation rule – what Mr Alastair Ross Goobey, of James Capel, calls the Holy Grail for strategists.

The choice between different asset classes has been simplified in recent times by the fact of inflation. As Warburg Securities explains, in its latest international asset location report: "In periods of rising inflation, bonds are poor performers, becauss the real return is being eroded... Generally we believe that equities will be the best performing asset class, and that bonds may underperform cash."

International Equity Flows – Summary Net Transactions, 1988 (US$ m)

	Market To:					
	US	Japan	UK	Cont. Europe	Rest of World	Investor Total
Investor From:						
US	0.0	0.6	0.4	1.1	(2.7)	(0.6)
Japan	1.9	0.0	0.5	0.7	(0.2)	3.0
UK	(1.0)	5.8	0.0	7.1	(4.6)	7.2
Cont. Europe	(2.4)	0.9	1.0	3.8	4.6	8.1
ERISA	0.0	1.7	0.5	1.2	0.7	4.1
Rest of World	(0.3)	(2.1)	1.8	(0.9)	0.7	(0.7)
Market Total	(1.8)	6.8	4.3	13.0	(1.2)	21.1

Source: Salomon Brothers

Fund managers thus continue to favour equities. Statistics from the WM Company, Britain's largest performance measurement firm, show UK pension funds particularly heavily weighted towards equities – at 78 per cent, compared with 9 per cent for bonds and 5 per cent cash. The British Government's policy of buying back gilts has meant less investment in the bond market and more in equities.

US pension funds are currently split 40 per cent equities, 16 per cent domestic bonds, and 25 per cent cash and short-term bonds. The Japanese, meanwhile, have a quarter of their funds in domestic equities, 14 per cent in overseas equities and bonds, 28 per cent in domestic bonds and 8 per cent in cash.

The main goal of asset allocation is to balance risk and reward. The initial choice is the split between passive and active management – between tracking an index or actively choosing stocks for fundamental reasons or special situations.

Passive management, or indexation, is proving increasingly popular post-crash – not the least because it ensures a fund manager will at least perform in line with a market. The quantitative technique relies on a computer to allocate assets by tracking an index such as the Standard and Poor's 500 or the FT-Actuaries World Index.

Indexed funds are catching on in Britain especially, so much so that the UK is challenging the US as the home of indexation, according to Greenwich Associates, the US consultancy. It estimates that, by 1992, Britain's pension funds will be indexing about a quarter of their domestic equity holdings – compared with about a fifth earlier this year. That compares with an estimated 22 per cent weighting for US pension funds by 1992.

Passive management is attractive to fund managers, because it rednces risk by reducing the element of human judgment. The globalisation of asset allocation has increased the risk of fund management; there are more markets and products to know, more regulations and legislations to come to grips with.

Mr Ken Ayres, vice president at Frank Russell International, the US investment managers, says indexation and other computer-linked investments provide a safety blanket of sorts: "Trustees, internal and external managers want some method of justifying what they've done, and if they can say 'we used this mathematical-based model to help us,' then at the very worst they at least have some excuse."

Bnt he essentially agrees with the assessment by Mr David Paterson, director at Fleming Investment Management, who stresses that indexation is a must for the fund manager in charge of tens of millions of pounds.

As Mr Paterson says: "It takes quite a brave pension fund manager to go too far away from the index with those sizes of funds."

But stray they do, in search of the value-added, which is where active management comes in.

Active management is generally split into two approaches: "top down", where macro-economic factors are the deciding factor, and "bottom-up" where the search for undervalued stocks, regardless of their home, reigns supreme.

The globalisation and diversification of equity investment has raised the stakes for active management and emphasised the growing importance of the regional fund manager.

For, just as investors were finally figuring out Japan – with its incomprehensibly high price-earnings ratios – unknown markets like Indonesia, Brazil and Turkey have appeared on the scene.

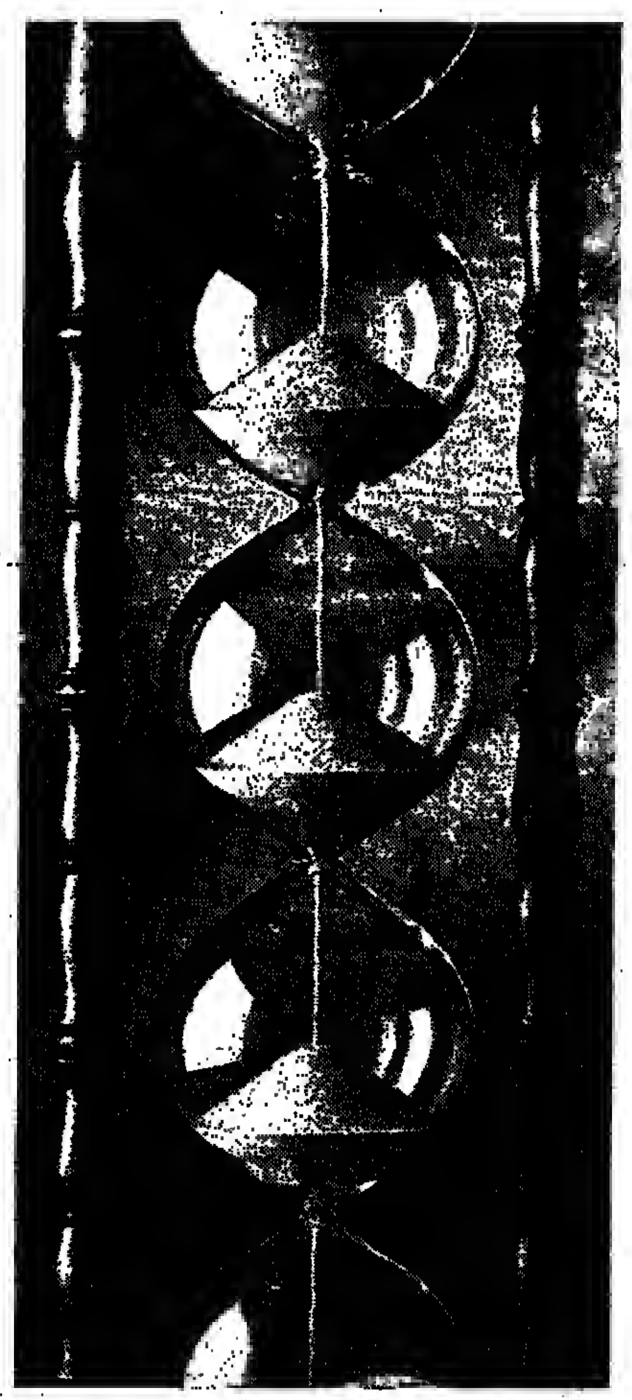
A regional manager knows the vagaries of his market, and can thus focus on stocks with greater long-term potential, such as second-line, less liquid equities.

Most asset allocation is a mix of most of the options – so it is the blend that counts. At Postel, for example, the UK pension fund manager adopts a centralised approach, deciding first on asset categories and the amount of money to be allocated to each. Then the specialists take over, with regional managers left to allocate their allotted funds in their area.

A large proportion of Postel's funds are passively managed, but Mr Andrew Threadgold, chief executive, stresses the role of a hands-on approach to asset allocation.

His maxim? "At the end of the day, it all really comes down to judgment. There are aids to the decision-making process, but they don't actually substitute for judgment."

Hilary de Boerr



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IN GLOBAL investment management, first the professionals displaced the amateurs, and now the technologists are seeking to supplant the judgmental managers.

Quantitative techniques have made big strides in the market-place during the past couple of years. Essentially, such methods bring mathematical and statistical procedures to bear on portfolio construction, and use the power of computers to implement a variety of strategies.

The basic quant product, and still by far the most widely marketed, is the index fund. This started in the US, where domestic portfolios worth something like $140bn are now indexed. Usually they track the Standard & Poor's 500 Index, but there are others. Passive management of this kind is also increasingly popular in the UK, where it is estimated that around £18bn is linked to the FT-Actuaries All-Share Index.

Global indexing took longer to develop, but the necessary models and techniques are now available from firms like Barra and Quantec. In the Erisa (Employment Retirement Income Security Act) market-place for non-US global equity funds, domestic specialist index managers like State Street and Wells Fargo have made the transition to tracking international indices, such as the Morgan Stanley Capital International Europe, Africa and Far East (EAFE) Index, and the FT-Actuaries World ex US Index.

Barry Riley on the big steps taken by quantitative techniques

Even trackers can lose a scent

These passive managers have shot to the top of the league table of funds under management, and at one stage earlier this year some 60-70 per cent of new international equity mandates were going to these passive managers. Around $14bn is now tracking the global indices for US clients.

In London, too, Barclays de Zoete Wedd in particular has pulled large sums into its exempt global index funds. A few indexed unit trusts have also been launched in the UK by houses that include Morgan Grenfell, James Capel and Gartmore. And the Japanese are well to the fore, with Nikko and Yamaichi marketing index-tracking expertise around the world.

Some of the disadvantages of simple indexation are now coming to the fore, however. It all seemed plain sailing at the end of 1988, when the performance of international equity managers presented index-trackers with a seemingly cast-iron marketing pitch. Active managers had been seriously underweight in Japan, and moreover had underperformed local indices by amazingly wide margins – the median British pension fund manager in 1988 missed the Tokyo index performance by 12 per cent, and also underperformed the S&P500 in the US by 5 per cent.

As so often, however, last year's solution proved to be the wrong answer to this year's challenges. The index managers who upweighted Japan found that they had, with unfortunate timing, increased their exposure to one of the worst performing markets of 1989 so far.

Suddenly, too, foreign active managers have begun outperforming the Tokyo indices, because the small capitalisation, low p/e stocks have stood out. The index funds essentially track only the market leaders. James Capel's Japan tracking unit trust has this summer slumped into the bottom quartile of the 70 or so British unit trusts specialising in Japan, whereas a solid second quartile performance would normally be expected. It does not appear to be a failure of tracking, but simply provides a reminder that short-term fluctuations can wrong-foot even the smartest investment technologist.

Namdar Mossaheb, who runs Capel's quantitative unit in Edinburgh, insists that any underperformance will be temporary. "There has been an extraordinary performance of smaller capitalisation stocks, as opposed to the larger company stocks," he explains. "This pattern has never occurred before."

Meanwhile, Capel has made a breakthrough in being appointed an index fund consultant to the capital management division of the Industrial Bank of Japan, and has also just been appointed to set up a £110m Japanese index tracking portfolio for a non-Japanese client.

Some of the disadvantages of simple indexation are coming to the fore

The global indexers may need to have something of a rethink in the light of events in 1989. But they have other strategies to hand. One is to build in asset allocation capability by developing index-tracking sub-funds based on, for example, the US, Europe and the Far East, but allowing the weights to be changed. This can satisfy the needs of, for instance, clients who are discouraged by the still extremely high share valuations in Tokyo. Another strategy is the setting up of small company indices, so as to capture the fluctuations of the small capitalisation end of the stock-market.

Whatever the fortunes of the passive managers, quantitative techniques are also catching on fast in active management. US domestic managers, such as Batterymarch and Grantham, Mayo, Van Otterloo, have extended their techniques into the global arena.

The basic approach is to use various sophisticated screening techniques to select stocks which conform to patterns of characteristics leading to outperformance. Jason MacQueen, head of Quantec, reckons that there will soon be a big demand for computer models which provide screening facilities and which test for consistent extra returns.

A practical snag is that methods that work well in the US, where the quality of information on individual companies is high, may not function reliably in other national market places where the data is poor. This particularly applies to parts of continental Europe, which has become an important area for global equity managers this year.

It is certainly dangerous to apply screens which work well in one country to markets elsewhere without careful checking. The ratio of book net worth to share price has been positively correlated with returns in the UK and also in Japan, but this cannot be assumed to be true in all countries. Global active management on this basis can be a long and painstaking affair, and the necessary databases are only slowly becoming available.

Nevertheless, the quantitative approach is spreading fast. In London, even traditional investment houses, like Robert Fleming, Barings and Lazards, claim to use quant methods.

Most of the big fund management groups now find it convenient to build some in-house passive management capability, if only for defensive reasons, and they often also feel it valuable to inject some quantitative skills into their stock selection processes.

"Quantitative techniques can add value across the broad spectrum of funds," says David Paterson, who is responsible for the quantitative portfolios group at Fleming. "These techniques force you into a more clear-sighted view."

The next step is likely to be the more widespread application of quantitative techniques to asset allocation. This is most relevant to the managers who take a "top down" view and want to gain the maximum benefit from knowledge of past correlations between different markets around the world.

Just now, the passive managers may be having a tough time, at least in the Far East, but the quantitative approach, taken as a whole, is still riding high.

Performance measurement

Pension chiefs plan a review

MEASUREMENT of a fund manager's performance has become an integral part of the investment scene, whether it involves pension, life assurance, unit trust or investment trust funds.

In the UK, the proposed disclosure rules from the Securities and Investments Board envisage life and unit trust companies providing the public with some form of performance measurement figures.

Until recently, performance measurement was a mere check on how well a fund manager had done over a period; now, it is a major tool in the investment manager's workbox. On both sides of the Atlantic, the development of scientific methods has been most pronounced in the pensions field.

A fund manager's investment record, as provided by one of the major performance measurement companies, is an essential part of his c.v. when he competes for funds to manage.

He will regularly have to explain and justify to trustees his investment operations, against a performance assessment from a measurement company.

All too often, his investment brief is simply to beat the median performance, if the trustees and his employer are cautious, or to get into the top 5 per cent if they are aggressive; and all too often, the result is that he will keep closely to the average portfolio holdings, as shown by the performance measurers.

The inevitable backlash has come from fund managers, actuaries and accountants, who are taking stock of the situation and asking "what are we doing?" and "why are we doing it?" in relation to performance measurement.

The first move came from fund managers themselves. At this year's annual pension conference of the Confederation of British Industry, Mr Donald Brydon, chairman of Barclays de Zoete Wedd Investment Management and of the investment committee of the National Association of Pension Funds, announced the launch of an investigation into performance measurement. It will consider:

□ The way investment performance information is constructed, and any major deficiencies;

□ Whether the information is presented in a way that helps trustees to determine the strategy of investment of their funds;

□ A desirable frequency for reporting investment performance information to trustees (with a possible recommendation);

□ The extent to which trustees make use of performance information;

□ Ways in which the information is used by other organisations, such as consultants in manager searches and investment managers in advertising; and

□ The extent to which such information and its presentation affects investment decisions.

The composition of the committee has yet to be announced, but Mr Brydon was emphatic that it would consist of users of the services – trustees, pension fund administrators and investment managers. Consultants could be retained to provide expert advice, but would not be a major part of the investigation; and the performance measurement experts would be the ones providing information to the enquiry.

Meanwhile, actuaries in the pensions field are questioning the methods used in performance measurement. In a paper presented this week to the Institute of Actuaries, two consulting actuaries, Terry Arthur and Peter Randall, say that the role of past-performance measurement in investment strategy and selection is overrated, at least while the present methods are used.

They point out that current techniques assess the performance on a market-value basis of the assets still in the portfolio at the end of the measurement period. They argue that this is only part of the picture, and that it is equally important to assess the role of the market value of assets sold in giving a more complete picture.

Mr Arthur and Mr Randall put say that other measures provide indicators of a manager's investment skills; in particular that:

1, The income received from all assets in the portfolio will be significant, and that, for equity holdings, the pattern of dividends and their growth are excellent indicators in their own rights; and

2, Much of the long-term performance will come from investments no longer in the portfolio, and that an analysis of sold assets would be highly useful.

Much work is still required in bringing the investment risk factor into the measurement calculation

They quote the example that, if stocks sold had, during the period of tenure, outperformed the market, then this would be a positive indication of skilful investment management.

The Pensions Research Accountants Group has, within the past few days, produced a paper on Investment Performance Measurement for UK Pension Funds. Much of it explains the present situation, but there are two interesting sections on risk and the interpretation of the results.

While much of the pressure for assessment and change in performance measurement is coming from outside, the measurement groups themselves are assessing their methods, presentations and quality of service to clients.

Much work is still required in bringing the investment risk factor into the measurement calculation. US measurement services already claim to do this, using sophisticated statistical methods as risk assessment. Such techniques were used in a recent report on pension fund investment manager assessment by the London Business School, but they have not yet been accepted by the commercial providers of measurement services.

Until recently, the presentation of performance results has been a general league table of every fund measured. Now, it is becoming general practice, in unit trusts and investment trusts, to present the results according to the type of fund.

The Unit Trust Association has recently reclassified its funds into 17 types and sub-types. Presentation of performance is based on this classification. There is pressure is for pension funds results to be shown in peer groups, so that the major mega-billion pound funds, with a wide spread of assets, are not compared with the small specialist funds.

Eric Short

MANAGER SELECTION

When it pays to be a specialist

"LONDON managers are experienced in performance-based investment," says William Richards, who earlier this month launched Deutsche Bank's new institutional fund management offshoot in the UK. "We are ready to start working with intermediaries."

But, although Deutsche Bank Capital Management (UK) will have to fight its way through the competitive Anglo-American environment, the bank's central fund management operation, based in Frankfurt, will remain rooted in a cosier world, where regulations and relationships count for a good deal more than impressive results.

Some London managers regret that the movement is only one way. Deutsche Bank and similar continental institutions can open up in London and compete on more or less equal terms, but British and American fund managers cannot move into Germany on the same basis. They will find they lack the right kind of licence, or they will not be able to reach potential clients.

In the end, the question is whether the German or Swiss corporate clients will realise that they have been missing out. But the ultra-competitive Anglo-American scene has its drawbacks too.

Intermediaries are now crucial to the institutional investment management business in the US and Britain. They play a vital role in advising clients on selecting and monitoring their managers. Effectively they have set up a market-place in which new and innovative managers can make an impact. All the same, are they getting too powerful? Some people fear that the intermediaries are distorting the development of the investment management business, to their own advantage.

The investment consultancy business has developed furthest in the US, where firms such as Frank Russell, SEI and Wilshire Associates are prominent. The techniques grew up in the domestic fund business, but have been translated into the global Erisa (Employment Retirement Income Security Act) sector.

Manager selection centres on the notorious beauty parade, the competitive presentation at which rival managers file in one after another and seek to impress the plan sponsors.

However, a lot happens before that. A new management firm such as DBCM-UK must seek to establish its credentials with the consultants; it will probably try to present to them before it ever seeks to approach clients. The first task is to get on to the consultants' short lists, and if it does not get past this first hurdle it stands little chance of establishing itself.

What is the secret of success? According to Martin Wade, president of Rowe-Price Fleming International, an Anglo-American joint venture, any decision by a committee is bound to be unpredictable. "You narrow it down. But it's then a bit of a lottery. It will depend quite a lot on the chemistry between the people involved," he says.

There is an inevitable tension between the managers and the consultants. This is aggravated by the consultants' tendency to push the managers into specialised pigeon-holes, whereas the managers themselves would, in many cases, prefer to offer a broadly-based service.

In fact, many of the big balanced managers have accepted that they must compete for specialised mandates. Although they may not gather in so much money under management in this way, the fees are higher. And that is the central problem, because by the time the fees of the consultants themselves are added in, the total costs to the client may be significantly greater than with more traditional arrangements.

Yet the consultants have filled an essential role in developing the global Erisa business. Global management is itself a specialisation, when viewed from the somewhat topsy-turvy perspective of the typical American company pension plan, because most US investment advisers only deal in the domestic securities markets. The consultants have been able to find management firms with international expertise – in Boston, London, Edinburgh or Tokyo – and take on the task of keeping their performance under review.

It is argued by the consultants that broadly-based managers are not uniformly successful in all the areas in which they manage funds, and that by narrowing down the mandates it is possible to achieve greater consistency of performance.

Besides the obvious specialisations in bonds, or in European or far eastern equity markets, the differentiation of managers is being extended to cover various styles. There are index fund managers, of course, and "top down" firms with a heavy input of economic and political analysis. Bnt "bottom up" managers pick stocks for value, more or less regardless of where the companies are based geographically. Some of the managers use quantitative methods rather than conventional investment analysis.

As the international fund management business segments still further, it is possible to find specialist small capitalisation managers, or emerging markets experts, or firms which focus upon derivatives such as options or warrants.

According to Martin Wade: "The kind of appointments that big corporate clients are making are quite different from five or six years ago. Today only half of the portfolios managed by Rowe-Price Fleming have unrestricted mandates."

In one way this is inhibiting, but he accepts that a diversity of approach may have the merit of reducing overall volatility for a multi-manager fund. Styles that work well in some conditions may be outperformed by others at a different stage of the stock market cycle. Over the cycle as a whole, the various managers may perform similarly, but the presence of a variety of styles can reduce volatility.

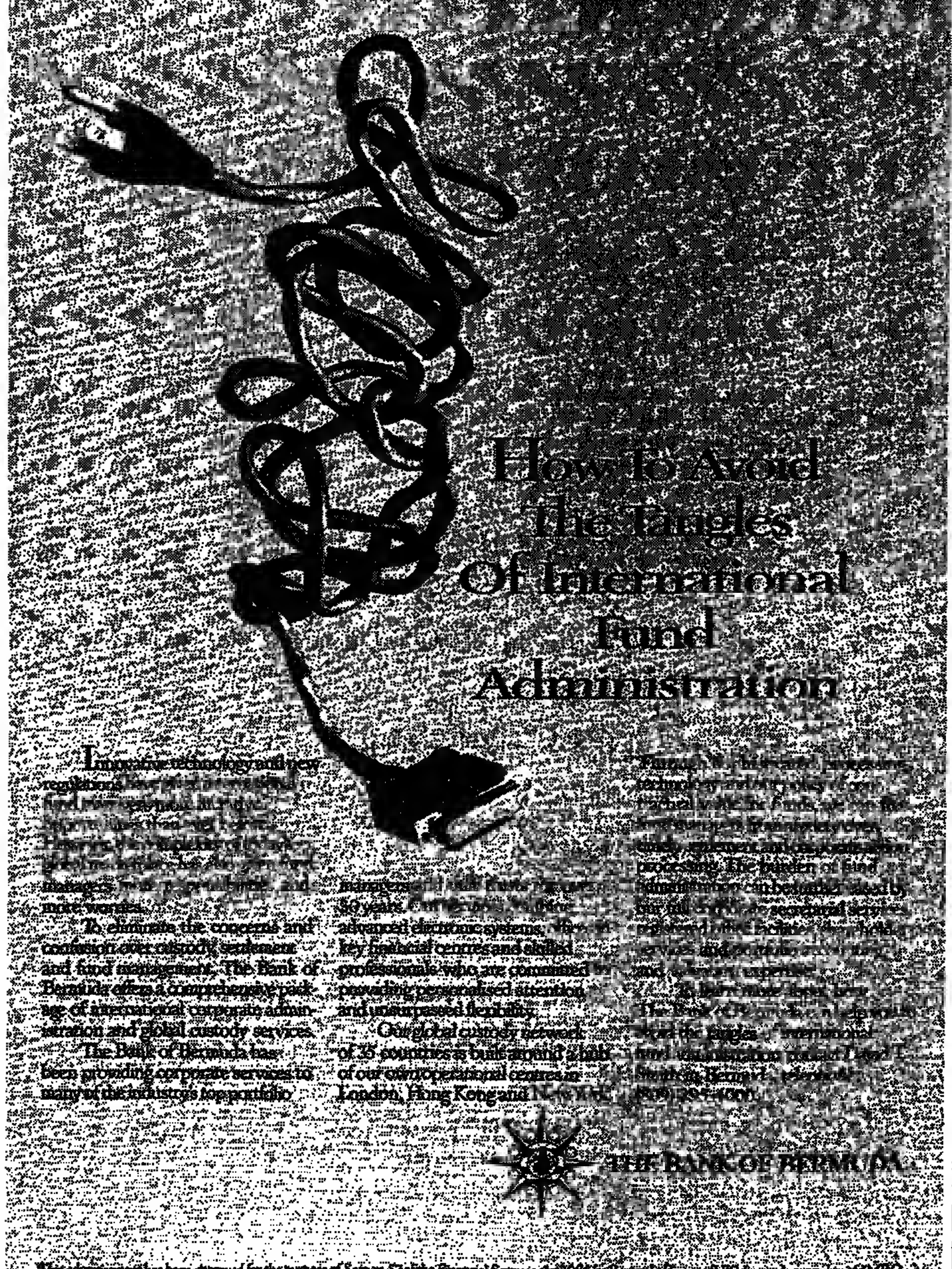
The presence of a variety of styles can reduce volatility

Maybe it is qnestionable whether pension funds, with their very long time horizons, really need to spend money on reducing the volatility of their portfolios. But that is an important objective of the consultants. Certainly there are many small firms of investment advisers which are very happy that the industry has become driven by intermediaries. Otherwise they would scarcely get a look-in.

In Japan, for instance, institutional fund management contracts are very much determined by longstanding relationships and by a mass of regulations about which kinds of managers can look after various kinds of funds.

According to David Price of Mercury Asset Management, business can only be won by knocking on doors, and being very patient and persistent. With its own office in Tokyo, MAM has been able to start clawing its way into the Japanese market. But it is not a place for boutiques.

Barry Riley



Andrew Freeman on global custody

Margins squeezed

GLOBAL CUSTODY as a banking product is not changing nearly as fast as the increasingly public profile of the business might suggest. Or, as one trustee put it: "Don't be fooled by all the advertising and gloss."

For most pension funds and fund managers, the maintenance of their international assets to a high standard remains as important a requirement as ever. But for the custodian banks, the challenge to reach that standard is becoming ever harder.

Increased competition within the banking industry can be coupled with the international impetus towards electronic book-entry securities exchanges to present a powerful set of forces acting against the dominance of the industry of any *particular handful* of banks. Indeed, the formula for success grows more elusive every month.

Behind the scenes, however, it is possible to identify trends within the custody business. For example, many customers of the leading custodian banks are finding that there is decisive evidence for growing competition between the providers.

For a start, price competition remains as fierce as ever. New business is still growing, especially outside the US, but the margins enjoyed by custodians on their investments in systems and processes are being squeezed as they are forced by client demand to lower their fees.

This puts many of the biggest custodian banks in a nasty bind. A potential customer which tells a short-list of banks that one of their number has offered a low price is usually asking the other banks to match that price.

But as one banker said: "How can we cut our prices for new business and look our existing customers straight in the eye?"

The more fees are squeezed – and there is speculation among banks that some of them are buying market share whatever the cost – the more the custody business must move towards a commodity business if the banks are to find it profitable. If that happens, the margins inevitably come down and custodians must address the question of where in future they will find incremental returns.

Nevertheless, some banks already think there is an identifiable polarisation occurring between the biggest providers and the niche-players which rely on customised services to a small number of clients.

In that sense, global custody is still maturing as a banking product and is ending a phase of extraordinary growth. If the basic clearing and settlement elements of the product will inevitably move towards taking on commodity-like characteristics, it is safe to say that neither of these developments has occurred yet.

Indeed, banks like to stress that they are currently offering quite different products to clients, and that this also works against the imposition of uniform pricing. However, most are already looking to the future for ways to add value to the service they provide for their clients' portfolios.

A year ago, many banks had identified data manipulation as a key area for the future. They argued that they could produce, say, performance measurement reports or complex valuation services. As the performance measurers came under pressure for comparing apples with pears, so the custodians sharpened their idea that tailor-made portfolio information could be the key to those elusive incremental profits.

Some banks see a polarisation between the biggest providers and the niche-players

They could even extend their operations via gradual development or takeovers to make themselves look more like consultants advising funds on their portfolios in the broadest perspective.

This sort of vision has tended to take second place to the day-to-day challenge of meeting the needs of simple settlement and reporting. One custodian says that for fund managers there is still an unmet requirement for pure custody: "They want quick, accurate systems which are capable of handling volume spurts. We're not talking about bells and whistles, just a straightforward product."

By contrast, pension fund clients are more demanding in precisely the area which the custodians have identified as the way forward. The need for more sophisticated reporting is driven partly by regulatory requirements – for example, UK funds have to be rigorous about their activities in case they inadvertently run foul of tax authorities which distinguish between trading and genuine investment.

Equally important is that trustees want to feel they have proper control in what is more often than not a multi-manager environment. When a trustee has a clutch of managers offering performance figures and reconciled positions, it can be a confusing mass of information for a trustee board to handle. If the board could pay a custodian to standardise the information, there would be value on both sides.

Back in the present, one area of the custody business has continued to demonstrate astonishing growth – securities lending. According to custodians, more pension funds are abandoning their traditional reticence and offering their securities for lending.

In particular, a UK tax ruling allowing funds to lend stocks without losing their overall tax-exempt status has encouraged unprecedented levels of new business for the banks. Since February this year, Bankers Trust estimates it has been lending some $70m of stock per day out of London.

According to one custodian, it has clients which will earn more than $1m this year for lending some of its Japanese equity portfolio, more than enough to offset their entire custody and safekeeping bill from the bank.

As word of this sort of income gets around, lending will become one of the major products with which custodians entice new business.

New business continues to be in regular supply. One custodian cites the tendency of international fund managers to address an ever wider range of markets, leading to demand for more diverse custody services. The emergence of specialist funds invested in, say, the fast-growing far eastern countries, provides one area where custodians are not short of business.

PRIVATE CLIENTS: discretion often matters more than performance, yet . . .

Secrecy may not be guaranteed

A CHAUFFEUR-driven limousine meets you at Zurich Airport and whisks you off to that small, discreet hotel close to the Banhofstrasse, where your Swiss bank has reserved a luxury suite for you.

That evening, your customised bank executive escorts you to the theatre and, over supper, gives you advice on which Swiss doctors to consult and how to arrange schooling for your children.

Not all private banking clients get such personal service from Swiss banks, but many do, and you can gauge the value of your account in their eyes according to whether you have to find your own taxi to take you into town.

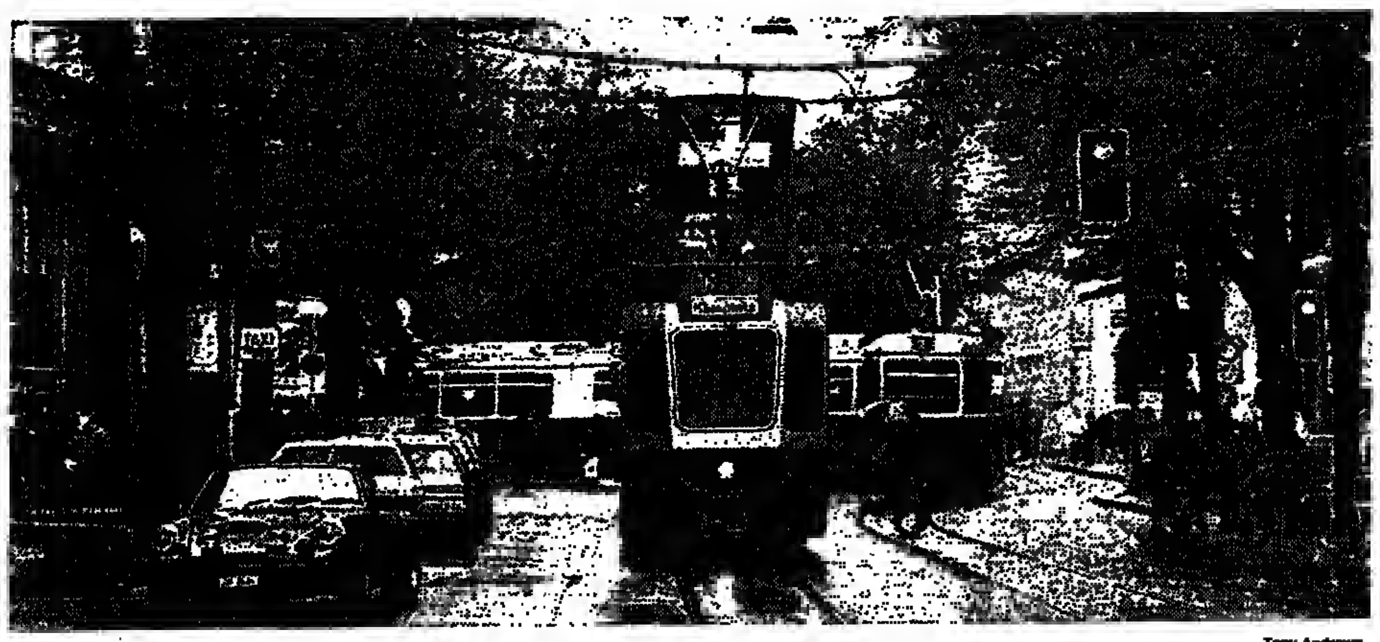
Cosseting though the personal touch may be, it represents the frilly end of the spectrum of private banking services. The serious part of the subject is more difficult to define. For some the emphasis is on banking services ranging from deposit facilities in different currencies and high interest cheque accounts to loans and bank guarantees for, say, Lloyd's membership, and rapid transfer of money around the world. Others regard discretionary investment management as the vital ingredient.

"It means different things to different people," says Mr Sydney Palk, head of international private banking at Barclays.

Everyone involved in offering private banking services (sometimes now called boutique banking) emphasises confidentiality, tailor-made solutions to individual financial problems and flexible service available through a "relationship manager" or "liaison executive". The private ambience and the fact that you don't have to wait in a queue also help sell the concept.

There is, however, nothing new about private banking. Switzerland, still the centre of the art, has been attracting what are nowadays called "high net worth individuals" for more than a century.

But what used to be a secret service now has a more public face, thanks to the discovery of private banking's potential among the marketing experts of household-name British and American banks.



Tony Andrews

Zurich, where the seriously rich can conceal their wealth under a discreet umbrella — but the weather is changing

Mr Walid Boustany, director of S&O Consultants, a management consultancy firm associated with accountants Spicer and Oppenheim, maintains that there has been a surge of interest in private banking in the last 18 months, but that much of it is marketing hype. Nevertheless, he sees some interesting national differences both among banks and their customers.

In the US, he argues, private banking is largely credit-driven, and serves the borrowing requirements of aspiring entrepreneurs whose investment management business banks hope to capture at a later stage. Switzerland, on the other hand, acts as a magnet for investment management of flight capital from politically unstable parts of the world, such as the Middle East. An increasing amount of Arab money has gravitated towards Switzerland in recent years, deposited by Arabs who used to regard Beirut as their natural financial centre.

While Austria has possibly stronger banking laws than Switzerland, and Luxembourg tries hard to compete, perception and tradition, even lethargy on the part of customers, are factors still favouring the Swiss. Mr Palk estimates that there are 1m households in the US with an annual net income exceeding $1m. The number of "seriously rich" people worldwide could be anywhere between 3m and 10m, he says.

A large proportion of that market remains untapped. Hence the enthusiasm of financial institutions to package private banking services into an appealing whole.

So, how much money do you need in order to be able to boast of your private banking status down at the golf club? Mr Heinrich Looser, a senior banking executive with Bank Julius Baer, in Zurich, looks for a minimum of $1m of disposable assets, but also offers less wealthy clients participation in the bank's investment philosophy through in-house mutual funds.

Bank Julius Baer's clients come mainly from Europe, and South America is "relatively important". Like many old-established banks, there are clients whose families "have been with us over maybe generations".

Different definitions of what constitutes a high net worth individual mean some Swiss banks will accept clients with a minimum of around $75,000 to invest. More often, prospective clients are expected to have at least $300,000 to invest, and the weighting of the portfolio as between, say, shares, bonds, cash and even gold bullion, is determined partly by the client's attitude towards risk and partly by the need for income and capital growth.

It is sometimes suggested that private banking clients seek safety and confidentiality as a higher priority than investment performance. A spokesman for Crédit Suisse, one of Switzerland's top three banks, discerns a trend towards performance because increasing competition among banks which have used superior performance as a marketing weapon has made people more aware of performance differences. Crédit Suisse faces a growing number of private clients who are performance-oriented.

But, priorities aside, there can be little doubt that confidentiality is a prime requirement among private banking clients. Switzerland has always scored on this point. Indeed, it is a criminal offence under Swiss law for a banker to divulge the business affairs of clients to any outsider, including, perhaps especially, foreign tax authorities.

But secrecy is no longer Switzerland's guaranteed trump card. In recent years the powerful US Securities and Exchange Commission, which is never shy of flexing its regulatory muscle outside its own territory, has persuaded the Swiss Government to lean on banks to disclose business details of clients suspected of laundering drug money or fraud. Opening the Swiss bank books of former Phillipines president Ferdinand Marcos is a famous example.

One senior Swiss banker argues that secrecy is not a shield behind which one can hide. "Confidentiality is a term I would accept," says the same banker.

Walid Bonstany says the Swiss are co-operating more and more with various governmental agencies, and that there is no question Swiss banking secrecy is not quite what it was. "If the authorities want to see your Swiss account because you're suspected of drug money laundering, the Swiss would open up the books."

Despite this the Swiss remain quietly proud of their secrecy and would not disclose information, except on very strong evidence of crooked dealing.

Peter Gartland

How do YOU plan your investment manager selection?

"After looking everywhere for the Queen (whom she spied out at last, a long way off), she thought she would try the plan, this time, of walking in the opposite direction..."

Lewis Carroll – The Garden of Live Flowers

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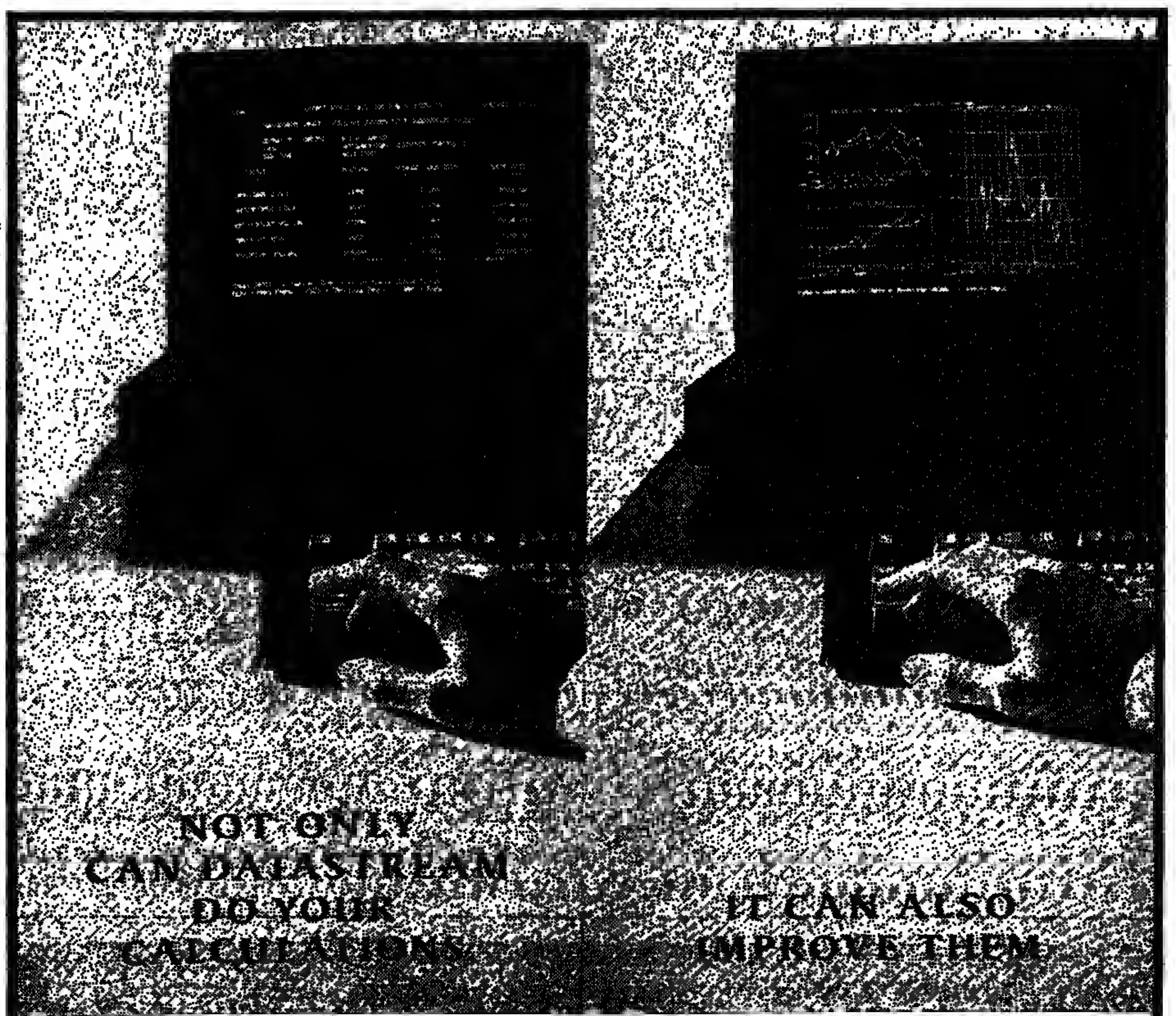

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TAXATION

Harmony must wait awhile

EUROPE's frontiers are supposedly falling down. In theory, they should be all gone by the end of 1992.

Nowhere is the gap between the ideal and reality more obvious than in the case of tax regulations – an area of enormous complexity, which impinges directly on the fund management industry.

The Treaty of Rome states the ideal situation: that indirect taxes across the Community should be harmonised, and that distortions in competition should be eliminated. What this requires is total tax harmonisation – but the European Commission recognises that this is not feasible, at least not in the short term.

Direct taxes are sensibly being left alone, but the Commission has put forward a number of proposals on indirect taxes which – when and if they are implemented – will dramatically affect the taxation of investments in Europe.

The relevant directive – of June 1988 – provides for the elimination of exchange controls, as of the beginning of 1993, in order to facilitate the free flow of capital between member states. But member states are understandably worried about tax arbitrage – that funds will fly from one country to another for tax reasons alone, giving rise to much tax evasion and avoidance.

To counter these understandable fears, the EC was hoping to adopt a compromise position whereby it encourages liberalisation but introduces rules to discourage tax avoidance. The key element of this package would be the introduction of a withholding tax of 15 per cent on interest paid to all EC residents.

Quite where these proposals now stand is a matter of some debate. While backed enthusiastically by the likes of France, Italy and Spain, they provoked significant disquiet among member states such as the UK and Luxembourg, which expressed fears that monies – and money management businesses – would simply defect to "offshore" centres such as Switzerland or Lichenstein.

Brussels outlined its proposals for dealing with tax-dodgers in July this year. Significantly, Mrs Christiane Scriviner, the European tax commissioner, made only passing reference to the 15 per cent tax-at-source proposals. Mr Nigel Lawson interpreted this as a resounding triumph for his own line of argument – whether the proposals will be revived remains to be seen.

If they are, it will be bad news for the fund management industry. It is not unreasonable to draw parallels with the flight of cash from the German bond market in the run up to the imposition a 10 per cent withholding tax on January 1 this year. In the meantime, fund managers should scrutinise the marketing opportunities afforded by the single European market.

Perhaps the most tangible manifestation of this are the so-called Undertakings for Collective Investments in Transferable Securities, or Ucits. These pan-European unit trusts came into legal being in December 1985, when the Council of Members agreed to bring in Directive 85/611, the aim of which is to co-ordinate members states' rules and regulations on investment funds.

The idea is that funds situated in one EC country can be marketed in any other member state without the latter being able to restrict operations by any legislation of its own. The detailed requirements are that a unit trust has to be approved in one member state, and then it can be marketed anywhere in the community. The authorising member state would be responsible for regulating that fund wherever it were sold throughout the community.

The proposals take effect from October 1 this year, although by no means all the member states have put through the necessary legislation at home. Luxembourg and the Irish Republic were quick off the mark while the UK is carrying the necessary legislation in this year's Companies Bill.

In theory, this could lead to an explosion in the volume of pan-European business, but in practice tax issues complicate the picture enormously. Take a couple of examples:

■ *How nice it would be for* UK-based fund managers to take advantage of the Channel Tunnel and sell some of their wares to the French. At present, there is a discrepancy between the way tax is raised on unit trusts in the UK and on the continent. Although this will be changed, it will still be difficult under the new regime to sell a *Ucits with any* non-UK equity element in France, given that a French taxpayer will be at a tax disadvantage because of the different tax treatments applied to non-UK and UK dividends.

■ A recent paper by the International Bureau of Fiscal Documentation shows that Luxembourg's Ucits legislation does not conform with the spirit of the EC's harmonisation measure. Tax-exempt status may not be allowed to management companies running more than one fund. The report also points to legal and practical reasons why investment funds based in Luxembourg are not necessarily entitled to the same tax treaty benefits that would have applied if the ultimate investor had invested directly abroad.

In conclusion, international fund managers should not fall for the rhetoric of 1992 and should in future be just as scrupulously careful as to where they base their funds as *they are now.*

David Waller

Beverly Chandler on offshore centres' new sophistication

Havens become legitimate

THE CASUAL reader of the financial press might be forgiven for feeling that offshore centres are popping up on every spare bit of rock around the world.

Madeira, Dublin, even Malta, are pouring resources into their new offshore centres, *establishing* the legal framework, the telecommunications facilities and the infrastructure essential in a modern tax haven.

However, these new centres will be quite different from the tax havens of popular myth. These days, even the expression "tax haven" is a misnomer in most cases.

Back in the 1960s, offshore centres were almost costly run affairs, set up on the whims of creative accountants, designed simply to take advantage of fiscal differences on behalf of the very wealthy. Those were the days of the true tax haven; but the very lack of regulation that made them appealing to the rich, bent on avoiding tax, made them vulnerable to comment and scandal.

The reaction was a superficial tightening up of regulations and new developments in the range of business. During the 1960s and 1970s, the offshore centres experienced a great period of growth, servicing the new needs of the flood of British workers heading off to the Gulf, to the joys of expatriate life and large salaries.

Nowadays, as the appeal of an expatriate working life has waned, the offshore centres still have plenty of work, servicing the financial needs of those who live and work abroad; but, on top of that, conducting all manner of business, including corporate treasury management, captive insurance, collective investment schemes for both companies and individuals who, quite legitimately, want to use a fiscally neutral area for their investments.

Over the last 20 years, for both companies and individuals, banking, trusts, insurance-based business and fund management have become more sophisticated and more international; and the advantages of efficient tax planning, available through offshore centres, have brought a wider range of investors into touch with offshore investment.

Since the lifting of exchange controls and the increase in international investment, offshore centres have become legitimate, and are increasingly employed as just another option in the investment world.

The result is a slight to quality. Companies using offshore centres expect *a high level* of service, equivalent to that available in the world's major financial centres. Tax havens have gone yuppie, and the *promoter of a new offshore centre* is as likely to talk about satellite connections with the rest of the world as double tax agreements.

Offshore centres conduct all manner of business, including corporate treasury management, captive *insurance, collective* investment schemes for companies and *individuals* who want to use a fiscally neutral area for their investments

Offshore centres, such as the Channel Islands or Luxembourg, have achieved this level of sophistication and service, and both areas are overwhelmed with new business and are extremely prosperous places. In Jersey, the financial services industry has taken over from the more traditional sources of revenue, such as tourism or agriculture, and now represents the largest part of the economy.

Becoming an offshore centre is an appealing role for any small enclosed autonomous territory, whether it is landlocked or an island. Colin Powell, economic adviser to the states of Jersey, comments: "The true offshore centres have a limited number of business *opportunities* they can exploit, so they look at growth industries and finance is a growth industry."

If an offshore centre is properly run, the range of financial services on offer can be varied according to the market requirements and to local requirements of the centre itself.

For example, Jersey is in severe danger of becoming overcrowded. It needs to restrict its population, so the number of jobs available is controlled by the law, and the local financial firms are encouraged to undertake offshore work that does not require large amounts of staff.

Ireland, on the other hand, has a problem with unemployment, so companies opening in the Dublin offshore centre will be expected to employ a high number of local staff. Gibraltar has very little space for office buildings, so trust or company-formation companies are encouraged on the Rock. They can undertake a high turnover of work without needing a lot of space.

The advent of cross-border trading throughout the EC has further highlighted the convenience of offshore centres, *while the member states* debate the rationalisation of the various tax codes around Europe, and investment can be made through an offshore centre tax-free and then declared to the tax authorities at home.

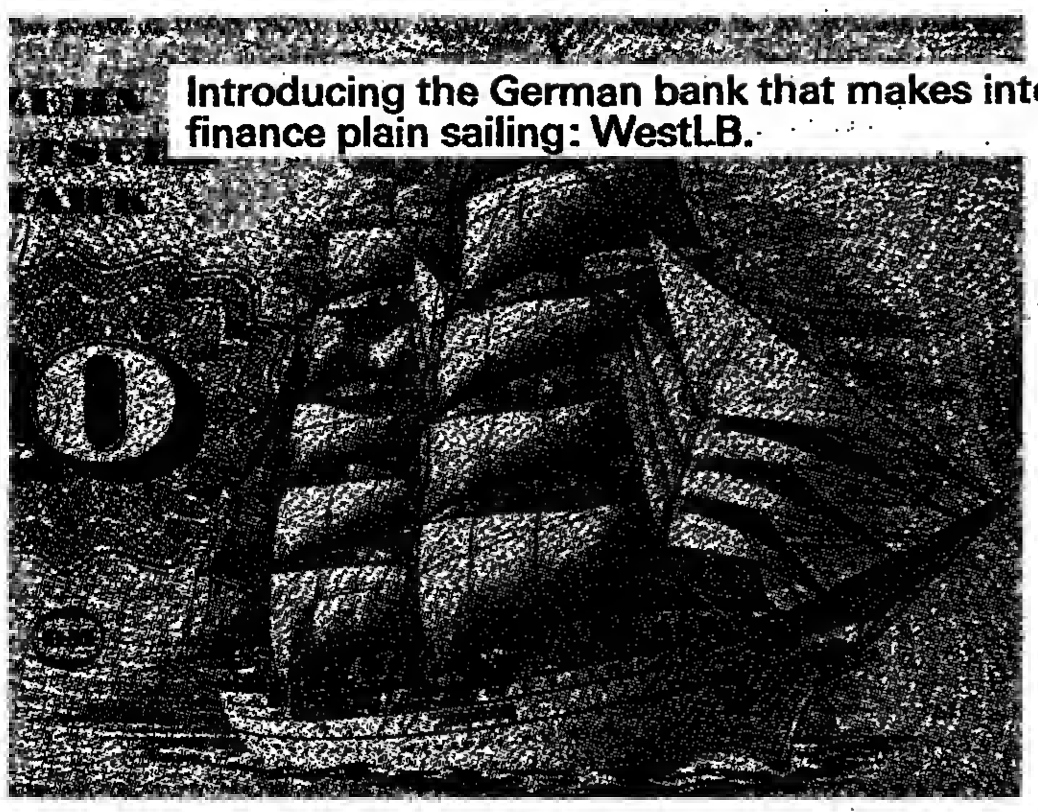
In a paper outlining their rationale for choosing Madeira as a site for an offshore branch, beyond that already open in Guernsey, Lloyds Bank Fund Management (Channel Islands) said: "As part of Portuguese territory, Madeira is the newest offshore financial centre in the EC. This was a very important factor for LBFM when considering to set up an offshore branch there."

Over the next few years, the general public in Europe will come into contact with the EC-based offshore centres more and more when they buy Ucits (Undertaking for Collective Investments in Transferable Securities) products. Their fiscal neutrality makes the EC's offshore centres ideal locations for forming cross-border investment companies. Luxembourg *has* emerged *as* the leader in Ucits, but Dublin has Ucits legislation in place, too, with Madeira not far behind.

This does not mean that non-EC offshore centres will suffer: the Channel Islands and the Isle of Man hope to become the mini-Switzerlands of the EC, offering total discretion and independence within Europe.

Whether there really will be enough business to go round for all these new offshore centres is arguable. However, the one thing that can be guaranteed in an offshore centre is flexibility.

Madeira: a full-bodied flavour as the EC's newest offshore financial centre



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INTERNATIONAL FUND MANAGEMENT 11

Hilary de Boerr identifies some emerging markets, and finds . . .

Indonesia has raced ahead

IT HAS been difficult to get a flight to Vietnam from Hong Kong in recent weeks – airlines have been fully booked well in advance, as brokers and businessmen make their way to investigate what could be home to the region's next emerging stock-market.

Vietnam is not the only Asian country courting advice from the experts. China, too, has indicated an interest in reopening its fledgling stock exchange in Shanghai to outsiders, although negotiations have slowed since the Tiananmen Square massacre in June.

When successful – and such developments are probably at least a couple of years away – the two will join a growing list of emerging stock-markets, and capitalise on the growing fashion for investing in exotic far-flung places.

Emerging markets are enjoying a heyday as investors recognise the potential there for spectacular gains. In the first nine months of this year, for example, Taiwan soared by 102 per cent and Thailand by 78 per cent in local currency terms. Brazil has, meanwhile, leapt by 45 per cent and Mexico by 122 per cent.

Such potential gains have fuelled the launch of a plethora of funds for investing in such markets, which span the globe from Asia to Latin America, the Middle East and Africa. The choices are amazing. Did you know, for example, that even Egypt, Morocco and Costa Rica had stock-markets?

A happy confluence of events has aided emerging-market development. The need for portfolio diversification and the increasing sophistication of investors has been matched by liberalisation and privatisation in such markets, as developing country governments seek to attract foreign investment for economic development, rather than relying on bank lending as in the past.

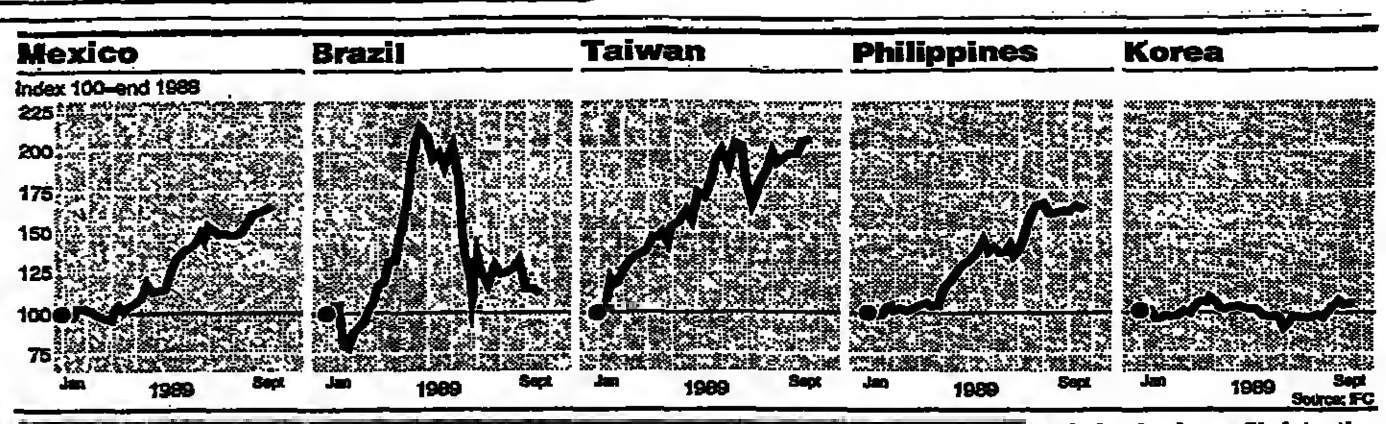
Liberalisation moves are many, ranging from the easing of credit restrictions to the creation of new secondary markets and the introduction of incentives for foreign investment.

Indonesia, Taiwan, South Korea, Turkey and Portugal are all examples of countries where economic and financial deregulation are aiding equity investment.

Privatisstions, meanwhile, are proving a healthy source of new stock in places like Brazil, Portugal, Turkey, Austria and Hungary. Debt equity swaps have also assisted the development of emerging markets, such as Chile and Brazil. Banks sell discounted loans for exchange into equity stakes in the debtor country.

Dr Mark Mobius, who runs the recently-launched Templeton Emerging Markets Investment Trust from Hong Kong, says newly emerging markets are taking their cue from those exchanges that have already entered the fray. They can thus benefit from the growing pains of their elders, taking advantage of developed technology and benefiting from the experience of deregulation.

Basically, developing countries are now aware that stock markets can assist economic development, he says. "There's been this realisation that you don't have to have a closed market – that a closed market does not necessarily mean you're going to escape a flight of capital, and that an open market does not necessarily mean you're going to get this money flowing out of the country."



Glyn Genin

Brazil looked good until June, when the view clouded over

Emerging markets are attractive for the potential large gains they offer to investors – but the rewards are accompanied by huge risks.

Witness Brazil, which was going great guns until June – having soared by 143 per cent in five months – when a major market player failed to honour his debts. The market plummeted by 59 per cent in just a few days, dragged down by the heavy weighting of just two stocks – Petrobas and Paranapanema – which together make up a hefty 54 per cent of the Sao Paulo index.

Then there is the currency factor. The unstable economies of emerging markets are often characterised by high inflation and sharp currency fluctuations. So a local index movement can widely distort the true picture. Argentina is a poignant example here. Its 11,000 per cent rise in local currency terms in the first nine months of this year is markedly reduced to 190 per cent when translated into dollars, the common currency of the international investor.

Sinca emerging markets mean volatility, their role for the investor is usually as long-term play.

Investment funds are an accepted route for the uninitiated into emerging markets, since they offer the expertise of the local fund manager, who should be aware of, and able to cope with, the failings of his market. These range from a dearth of information on listed companies to a lack of stock to settlement problems. There is also the need for an intimate knowledge of the politics and economics of the developing countries in question.

Mora than $6bn is now invested in over 100 emerging-market funds, according to New York-based Kleiman International Consultants, which this month published the first comprehensive directory of such funds. The directory tracks the funds' performances and gives such details as their tax status, investment objectives, structure and fees.

Mr William McBride, editor of the Directory of Emerging Market Funds, says nearly half of the funds profiled in the report did not exist two years ago. "It is now difficult to find any leading investment firm without some involvement in the smaller markets of Asia, Latin America and Europe," he says.

If there is a favourite emerging market at the moment it is probably Indonesia, taking over from last year's gem, Thailand. The Indonesian market has raced ahead since August, when the Indonesian Government announced that international investors could purchase up to 49 per cent of the issued shares of the 31 companies listed on the exchange, compared with the previous eight. Demand for Indonesian stock is so high that weight of money is expected to underpin the market in the near-term at least.

Mr Stuart Cook, director of regional research at Baring Securities in Hong Kong, estimates that only 50 per cent of country funds earmarked for Jakarta are actually invested; hence the anomaly that such funds are already trading at a big premium to net asset value, but probably have further still to go simply because demand outstrips supply – another characteristic emerging markets.

GLOBALISATION: **Richard Waters** asks what became of the round-the-world baton

The local expert has much to offer

REMEMBER global trading? Three years ago, this was the buzzword around the securities industry: a new globally-aware investment community would be plugged into a new global equities market, with national boundaries vanishing.

The vision was of securities firms' trading-books being passed like a baton between Tokyo, London and New York, in an endless circle of trading.

That vision – like much else in the securities business – has lost its shine, in part because of the crash, which itself spread like a chain reaction across the world's equities markets two years ago.

More important, though, it has now been seen to be too simplistic an analysis of the linkages between investors and the markets globally. The word "local", a dirty word when "global" was all the craze, is now back on people's lips.

In the words of Hector Sants, London head of securities for UBS Phillips & Drew: "There was a time, two or three years ago, when the perception was that global trading in two or three centres would dominate. For instance, a team in London would make prices for major stocks anywhere in the world. It was never a valid concept."

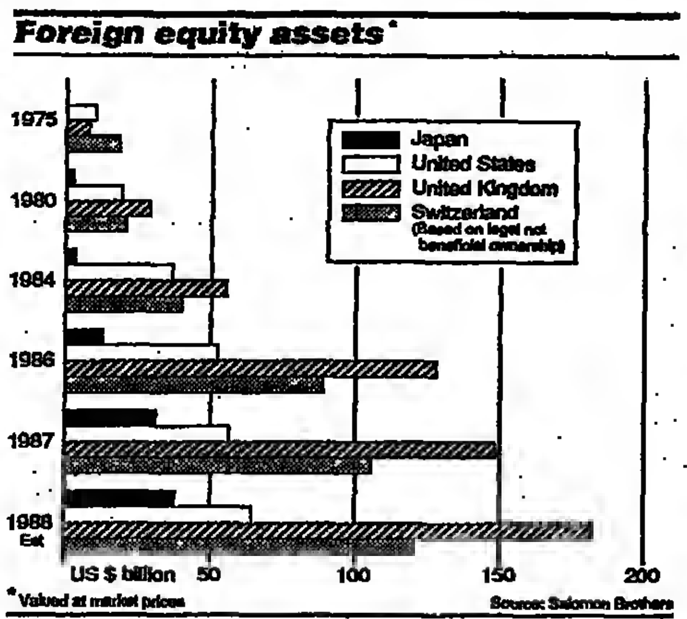
Instead, says Mr Sants, trading remains far more local. Local markets continue to be the key centre in driving the prices of companies, and the greatest liquidity for most companies' stocks continues to be in their local market. "Local investors drive the liquidity pool."

This is not the antithesis of global trading. It simply means that the development of international trading has been more complex than was expected in some quarters. Cross-border investment is growing steadily (although perhaps not at the rate forecast in some places) as investor interest grows. It is possible to buy Japanese stocks in, say, London and later the same day sell them in Nsw York. It is just that the price in the particular Japanese stock will be driven from Tokyo, not London or New York.

These markets are likely to play a relatively passive role in the process. For investors, though, it means that something pretty close to a global market already exists. In Mr Sant's words, "there is always someons somewhere in the world who can make you a price in the major stocks."

This analysis, of local markets providing the key to global trading, holds good at least across time-zones. Within time-zones – and particularly within Europe – the matter is less clear-cut. London's predominance in Europe has led to increasing amounts of business in continental stocks being done in the UK.

In leading French or German stocks, London may account for less than a quarter of dealing; but, in some others, there is already more liquidity in London than the local market.



Volvo, for instance, is more heavily traded in the UK than in Sweden.

It remains unclear whether this gravitation to a regional centre for internationally traded stocks will continue, or whethsr local stock-markets, once they develop, will win back business they have lost abroad. Europe's various national stock-markets themselves remain aware of the competition ahead, and are busy rearming for the contest – a development which can only mean better service for investors.

Despite the blow to the vision of global trading, meanwhile, some of its aspects are already well-developed. One of these is the single global book held by a securities firm. MrJonathan Agnew, chief executive of Kleinwort Benson, says: "We are running joint books around the world now – more or less. The same stock traded in London and New York is run on the same book. We don't let different centres trade separately in the same company."

The benefit, says Mr Agnew, is to the firm, which is able to cover itself against sitting on open positions and to maximise its profit opportunities. The main obstacles to the global book continue to come from tax and regulatory authorities.

It is difficult to decide where to book a profit (or loss) if stock is bought in one centre and sold in another. The national revenue authorities find it difficult to accept that a (taxable) profit, apparently made in their jurisdiction, should actually be attributed to someone on the other side of the world.

Mr Agnew adds: "There is also the difficulty of convincing the traders that it is the right thing to do."

Releasing hold of a trading book overnight is not always easy if you know that the open positions may have been closed and new ones opened up by the time you wake up.

Closely linked to the issue of global trading is the related one of global sales: the way in which companies are researched and their stock sold to investors across continents. Here, too, the idea of full globalisation has gone by the board, to be replaced by the ideal of linking local expertise into an international network.

For instance, most international houses currently conduct their research into major European stocks from London, and sell this globally. An apparent contrast is the growing tendency for some firms to build up teams of researchers in each of the major European countries. This, though, is not driven by the need to research internationally-traded stocks, of which there are relatively few, but to obtain access to the trading of purely domestic companies.

A second reson is the desire to develop the skills for cross-border mergers and acquisitions deals. The concentration of skill in London reflects, in part, the need to concentrate industry expertise: it makes more sense to have a single airline analyst in London, watching all the major European carriers, than separate generalists based in each country watching their own national carrier.

The same considerations apply when it comes to salesmen: there is a tendency for them to be local, although the selling is more easy to turn into a global activity than the research.

According to Mr Sants, there are opposite forces at work: "Should the salesman be immediately available, or located in the centre where there is greatest liquidity?"

Smaller investors may prefer the former, while larger (and more sophisticated ones) the latter, he says. It is attention to customer demand like this, rather than the grand vision of a global market-place, that will continue to determine the development of international equities markets in the years ahead.

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The Ucits Directive

Luxembourg blooms

SUDDENLY Luxembourg is no longer just a base for Belgian dentists to lodge their savings and for German banks to book business off their domestic balance sheets. It has become e centre for British and other mutual fund management companies.

"The reason why the British are here is that we have more expertise from an international investment point of view and e marketing point of view," says Stephen Cotterell, general manager of Wardley Investment Services (Luxembourg).

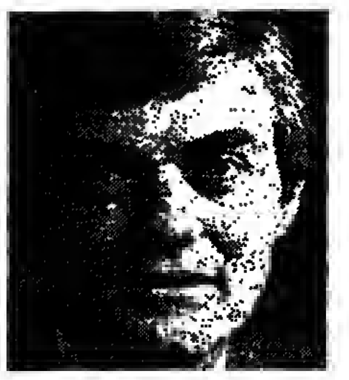
His remark is made in the context of the Ucits Directive, the Brussels legislation on so-called undertakings for collective investment in transferable securities, which was agreed by European Community member states in 1985 and became effective on October 1 this year.

Within the past year or so, groups such as Wardley, Robert Fleming and Ivory & Sime heve set up in the Grand Dochy. Others are wondering whether to make the same move. Fidelity's British operation is one that has decided to take the plunge, after much consideration. It will be launching e Luxembourg Ucits – an umbrella with 20 sub-funds – some time in the first half of next year.

Fidelity already sells e modest quantity of its UK unit trusts on the continent, and it has considered other bases, such as Ireland, which might be cheaper and simpler than Luxembourg, which is short of the regulatory end legal resources to process new funds quickly.

But according to Barry Bateman, Fidelity's chief executive: "If you are really serious about Europe it has to be Luxembourg."

He has the immodest aim of achieving the same market share across the continent as Fidelity has built in the UK. But he accepts that it will take 10 years to do it. The Ucits



Barry Bateman

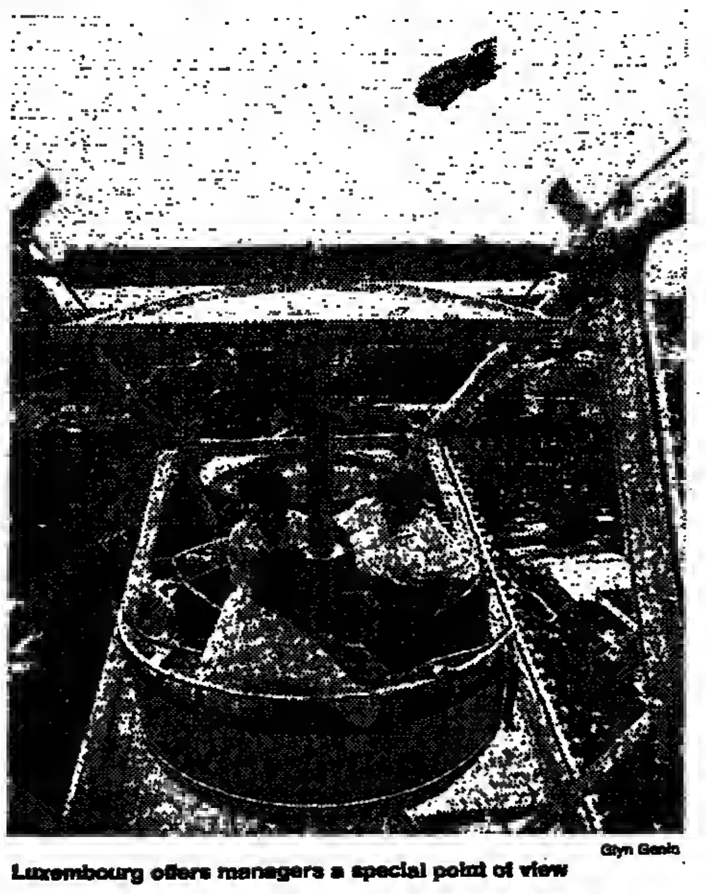
Directive promises evolution rather than revolution.

Mutual funds in Europe are very domestically oriented. In the UK, they tend to be international in their investment strategies, but the unit trust formulation makes them practically unsalable outside the country. Elsewhere, even the investment approach is usually very localised, partly because of a tradition of foreign exchange curbs in countries such as France and Italy.

Structurally, the trend is towards variable capital investment companies, which were developed in France, and are now multiplying in Luxembourg. But variable capital companies are not possible within the UK's company law framework.

It is the ambition of the European Commission, however, to cut across these national barriers. The Ucits Directive arose from the long-standing attempts by Brussels to create e unified capital market for the EC, and is not directly connected with the single market initiative for 1992 which came later.

However, the success or otherwise of the Ucits plan will plainly have implications for attempts to integrate the investment services, banking and life assurance markets at



Glyn Genin

Luxembourg offers managers a special point of view

the beginning of 1993.

Quite apart from the fact that several important countries, like Italy and Germany, are late in implementing their national legislation, there will remain various tricky hurdles to be surmounted.

Although open-ended funds which comply with certain basic rules are able to be marketed across borders, it is still necessary to comply with local marketing rules. This creates great complexity, and in any case the major retail outlets are often unavailable for newcomers. Often, banks dominate the mutual fund market, and sell their own products.

Styles of funds also differ considerably. The Germans prefer bond fund investment, but in the inflationary UK environment equity-based funds have proved far more successful. Meanwhile, in France, for particular structural reasons, money market funds are quite important (although these cannot qualify as Ucits).

According to Barry Bateman, only Luxembourg at present offers the kind of international image which is acceptable across a number of domestic markets. Stephen Cotterell, of Wardley, which like Fidelity is seeking distribution outlets in various EC member states, agrees. "The fact that we are here attracts people to talk to us," he says.

Mr Cotterell lists the advantages of Luxembourg as low costs, multilingual staff and tax transparency for investment funds. "It's great for the rest of Europe that these advantages exist," he says.

Tax is, of course, an impediment to the sale of funds across borders. Luxembourg's tax-free regime for investment funds is important here, although it is probably only e crucial advantage for bond funds. In other countries, tax is usually deducted at source.

But, although Luxembourg has now registered some 650 funds worth well over $60bn, it is important to remember that it is an administrative centre rather than e place where portfolios are managed. The actual portfolio management of Ucits will probably stay close to the securities markets.

Exactly how much of the administration of a Ucits must be carried out in the country of authorisation is a matter of interpretation of the directive. "It has been difficult to draw the line," says Jean Guill, a director of the Institut Monétaire Luxembourgeois, the regulatory body, "but I think we have now found this line."

As a result, several offshore managers in the Channel Islands and the Isle of Man have scurried to transfer their administration to Luxembourg in order to be able to qualify for a Ucits certificate.

A parallel phenomenon has been the arrival of a number of American custodian banks in the Grand Duchy, because of the requirement in the directive that custody must be local. For instance, Brown Brothers Harriman was custodian in the US for $1bn worth of Luxembourg funds.

Hence, also, the recent or imminent arrival of the likes of Morgan Stanley, State Street and Bankers Trust in defence of, or pursuit of, global custody business. This is because many Luxembourg funds will seek to gain Ucits certificates even if, for the time being, most of their investors are in Japan or other non-EC countries.

Overall, the mutual fund business in the EC is worth some $500bn, according to Spicer and Oppenheim Consultants, and there is scope for considerable growth. The impact of the Ucits Directive may be slow to become evident, but by the end of the 1990s the industry could look very different.

Barry Riley

REGULATION

Europe needs flexibility

"LONDON IS starting to beat New York for regulatory complexity," remarks Philip Sherman, who is the worldwide head of Citicorp's institutional investment management arm, which runs some $22bn out of London, New York and Toyko.

Tokyo is another matter again, with e tangle of restrictions. Citicorp has a trust bank in Japan, which means that it can bid for pension fund business as well as manage tokkin funds, which are corporate trading portfolios. But the Japanese market is slowly being opened up to independent managers.

Traditionally, London has been a fairly free and easy centre from which to run a global investment management business. It contrasts, for instance, with the US where the commercial banks are barred from the mntual fund business because of the Glass-Steagall Act. A more recent piece of legislation, the Employee Retirement Income Security Act (Erisa), dating from the 1970s, has also imposed serious

Foreign firms acting for US pension fund clients have to register under the Erisa provisions

restrictions on what managers can do.

To take the example of Citicorp again: e year ago, it sold its US domestic pension fund management business. The rules prohibiting the supply of services by the bank to the fund management side made it more logical to spin the business off on an independent basis. Several other leading US commercial banks have done the same thing. But Citicorp continues to service Erisa clients out of London.

According to Mr Sherman, the implementation of the Financial Services Act in London over the past couple of years has been costly; but to Citicorp, as a major US-based institution, it has presented only some fairly familiar problems.

"We as a bank are regulated by the Federal Reserve, the Securities and Exchange Commission and so on. We have the information already." In any case, he adds: "A good regulatory system is always reassuring to clients."

Nevertheless, there can be bureaucratic clashes. For example, British-registered investment advisers usually join the Investment Management Regulatory Organisation (there are alternatives, bnt they are less attractive) and must comply with the Imro rule-book. This has led to difficulties over the legal agreements between US Erisa clients and their London managers, given that the standard forms preferred by the clients are sometimes ruled as unacceptable by Imro.

The Americans are particularly prone to impose extraterritoriality. Foreign firms of investment advisers acting for US pension fund clients have to register under the Erisa provisions.

Regulations such as those applied under Erisa and under the UK's FSA are motivated by the need to protect investors, but investment managers around the world may be affected by a variety of other constraints. Governments may, for example, wish to direct capital in certain directions, especially towards the financing of their own public sector deficits, and they may also want to protect their domestic financial industries from foreign competition.

Bureaucrats may take a long time to catch up with new financial instruments, such as futures and options. This is investor protection of a kind, but may hamper innovation. Regulators also tend to be slow to adjust to international competition: there is still no provision in British legislation for open-ended investment companies, which are more familiar to foreigners than are UK-style unit trusts.

The tangle of rules and regulations has led to the development of e thriving offshore investment industry. There bave been some curious results: little Luxembourg has become one of the biggest focuses of Japanese overseas investment, which is only partly because of its deliberately favourable regulatory regime for investment funds.

An important additional reason is that it is e member of the Organisation for Economic Co-operation and Development, and thus complies with a requirement imposed by the Ministry of Finance in Tokyo, which rules out non-OECD domiciles and therefore cuts out many alternative offshore centres.

Such distortions (along with quirks of taxation) can these days be powerful enough to send billions of dollars in one direction rather than another. But these effects are often merely administrative, and have nothing to do with the ultimate investment of the capital.

Investment management is a multi-tiered process. At one end, savings and investment flows are gathered through a marketing process, and are then passed to a custodian, which may in fact act through a variety of sub-custodians around the world. The portfolio management side is usually handled quite separately, and for global funds may well be split between several financial centres.

Portfolio managers who do not handle funds have therefore tended to be treated more lightly, and in fact were almost completely unregulated in the UK before the FSA came into force. Now, the people involved must be proved to be fit and proper, an elaborate rulebook must be complied with, and certain minimal capital requirements must be met.

The next step will be the introduction of European Community requirements, with a draft Investment Services Directive now under discussion in Brussels, and implementation expected in time for the single market at the beginning of 1993.

Any direct impact on portfolio managers is likely to be slight, unless they deal with private clients. The directive is primarily aimed at securities firms, and in any case it will

The main danger is of a clash between the German and British approaches to regulation

not attempt to interfere with existing national regulations, except in so far as to lay down minimum standards. It has yet to be decided whether relationships at e professional level, snch as between pension fundss and their external investment advisers, will be covered at all.

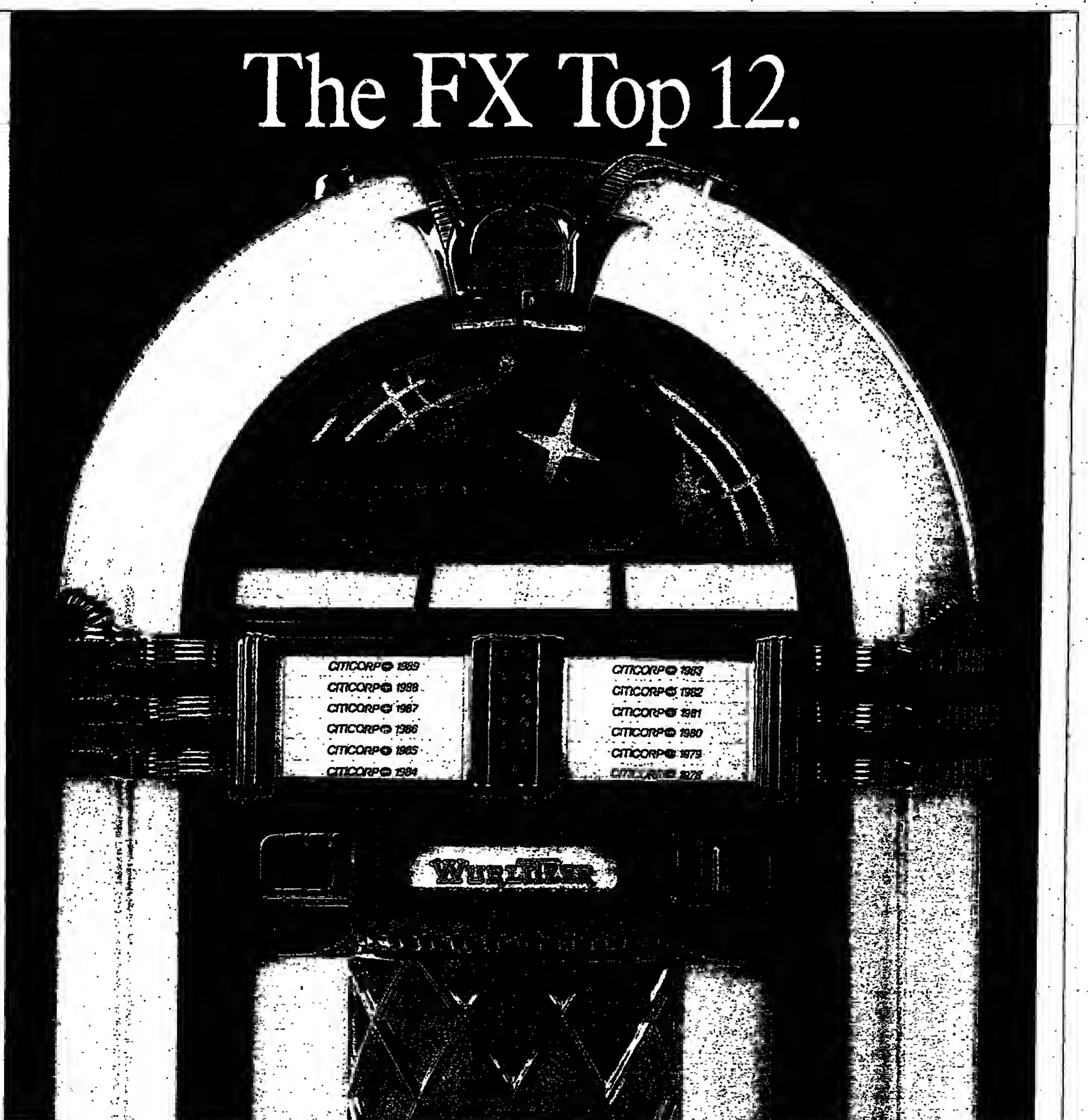
The main danger is that there will be e clash between the German and British approaches to financial market regulation. The Germans take the view that a few large firms provide greater safety than a multitude of small ones, and are therefore attempting to lay down very high minimum capital requirements. There is no place for boutiques in a German-driven framework.

In the slightly longer term, there is a danger that British regulations could begin to damage the UK financial services industry unless there is flexibility. As the European capital markets become more integrated during the 1990s, it will be difficult for any one country to maintain onerous regulations without seeing business start to move elsewhere in the EC.

Perhaps this is just another way of saying that regulators in future will need to take much greater note of the international implications of what they do. The European Community's directives form only part of this broader picture. The proliferation of international conferences of regulators suggests that the point has been taken.

Barry Riley

The FX Top 12.



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FINANCIAL TIMES
COMPANIES & MARKETS
Thursday October 26 1989

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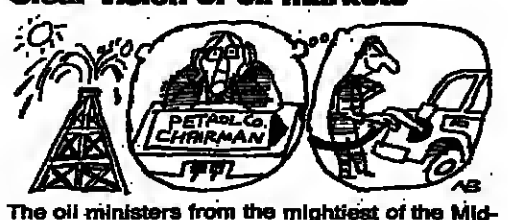
INSIDE

Nomura takes a novel route

Nomura International, the largest Japanese securities firm, has become the first Japanese dealer in the sterling commercial paper market. Nomura – one of three dealers on a £100m programme to raise funds for Associated British Ports Holdings arranged by NatWest Capital Markets – is, however, keen to emphasise that its novel participation in the SCP market is nothing out of the ordinary. It maintains that it has a strong interest in commercial paper in the European market as a whole. Page 24

Clear vision of oil markets



The oil ministers from the mightiest of the Middle Eastern oil producers have gazed into their crystal ball – and come up with a future that is bright for consumers but dismal for the oil companies. Mr Hisham Nazer of Saudi Arabia and Mr Issam Al-Chalabi of Iraq foresee moderate prices, without the sharp rise that many analysts have been expecting to fatten corporate profits. But it is important to remember that, clear as this vision is, it is just a forecast and may never come to pass. Page 27

Acquiring a taste for Chile

Chile may have had a turbulent recent history, but its increasing economic prosperity and emerging stock market are attracting the attention of those looking for fresh investment opportunities. It is a reflection of this growing interest that – hard on the heels of last month's launch by Salomon Brothers of the $70m New York-listed Chile Fund – the first London-listed fund aimed at the South American country has been set up. Alison Maitland looks at the vehicle launched yesterday by Genesis Fund Managers. Page 25

Pakistan starts to think big

Pakistan's stock market is preparing for a huge expansion. Prime Minister Benazir Bhutto's privatisation plans, which she hopes will raise about $100m this year, will double the market, and a new stock exchange is opening in Islamabad. Meanwhile, the Asian Development Bank and Merrill Lynch are discussing setting up a $50m Pakistan fund this year. It would be listed on the London and New York stock exchanges and aim to attract back some of the $1.7bn that, according to International Monetary Fund estimates, is invested by Pakistanis overseas. Page 40

Delta bucks the trend

Delta Air Lines, the third-ranking US domestic carrier, yesterday bucked the trend towards weak results in the sector with a 33 per cent jump in first-quarter net income. The airline has benefited from the turmoil at rival Eastern Air Lines, which filed for Chapter 11 bankruptcy early this year amid a pilots' strike and is still rebuilding its flight numbers, writes Martin Dickson. Page 22

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)							
Rises				Buderus	557	−	28.3
Bayer	285	+	5.8	[illegible]	2264	−	58.2
Daimler-Benz	700	+	10.5	Falls			
Degussa	492.5	+	15	Pwa	436	−	21.8
Hochtief	880	+	10	Schering	837	−	40.9
Karstadt	593.5	+	15.5	Synthetics	418	−	26.2
Viag	387	+	12				
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Coca-Cola	73¼	+	1¼	Katema	1380	+	160
Du Pont	117⅜	+	2⅛	Nagasakiya	1400	+	150
Merck	75¼	+	1½	Sansui	1240	+	130
Woolworths	58⅛	+	1⅜	Toa Paint	1330	+	110
Falls				Falls			
IBM	102⅛	−	3	Katakura Chik	1180	−	130
UAL	38⅝	−	12	Yokohama Matsu	1500	−	150
PARIS (FFr)							
Rises							
Fichet	1218	+	73.1				
New York prices at 12.30							
LONDON (Pence)							
Rises				Lucas	615	+	4
ASDA	147	+	5	Royal Ins	483	+	8
Barratt (H)	265	+	17	Sturge	251	+	9
Brit Aero	572	+	14	Trafalgar Hse	350	+	10
Burmah	674	+	14	Falls			
Cable & Wire	498	+	13	Hanson	212½	−	2½
Coates Bros	408	+	141	McCarthy & St	96	−	7
Dickie (J)	180	+	40	RTZ	465	−	8
GEC	222	+	8½	Siebe	478	−	10
Jaguar	715	+	21	Wood (SW)	182	−	13
Land Secs	513	+	9				

US regulators thwart USH subsidiary sale

By Andrew Bolger in London

THE CAMPAIGN being waged by United Scientific Holdings, the troubled defence contractor, to avoid a takeover by Meggitt, the specialist engineering group, was thrown into disarray yesterday by US regulators.

USH's proposed sale of its US subsidiary, Optic-Electronic Corporation, for $65m to Imo Industries of New Jersey has been blocked by the US Federal Trade Commission.

OEC, based in Dallas, makes image intensifiers for night-vision systems. Imo is the world's biggest manufacturer of night sights, and the FTC is concerned about the threat posed to competition in the US defence industry.

The FTC ruling is the second major reversal which USH has suffered in the US market for night sights, which the British company believes is ripe for consolidation. Last year USH tried to take over the number two US company, Varo, which is also Dallas-based. It was outbid for the company by Imo.

Having accepted the theory of "get bigger or get out," USH has failed in the first option – and now also, it seems, in the second. Beyond a short report of the US decision, USH made no comment yesterday. Imo said it would contest any court action initiated by the FTC.

An FTC representative said the commission had authorised its staff to seek a court order against Imo to prevent its acquisition of OEC. Assuming a federal judge grants the order, the next stage will be an administrative trial to examine the competition issues.

Meggitt said it was not surprised at the announcement by USH of "yet another failure of strategy and execution." It was, however, pleased that the uncertainty surrounding OEC had been resolved, since Meggitt considered OEC an important and attractive business capable of development.

Mr Ken Coates, managing director of Meggitt, said: "The board of USH has demonstrated once again that the task of managing an international manufacturing and contracting business is beyond it."

USH announced its plans to sell OEC on September 11, the day that Meggitt launched its takeover offer, which was then worth £115m ($178m).

Both companies' shares have since fallen sharply. With Meggitt's shares closing unchanged at 82p yesterday, its partial cash alternative for each USH share is worth 144.8p. USH shares closed at 140p, up 2p.

Meggitt, which owns 3 per cent of USH and has acceptances for 12.4 per cent, has extended its offer until next Tuesday.

Deutsche Bank holdings revealed

By Haig Simonian in Frankfurt

DEUTSCHE BANK, West Germany's biggest financial institution, has been forced to reveal, for the first time, details of its huge equity participations in German industry, as part of its plan to list its shares in Tokyo early next month.

The disclosures, coming on top of the bank's already known stakes, such as its 28.1 per cent holding in Daimler Benz, Germany's biggest industrial company, are likely to stoke up the current debate in Germany about the "power" of big banks.

The principal surprises in the new list are Deutsche Bank's holdings of 10 per cent in Allianz, Europe's biggest insurer, and in Münchener Rückversicherung (Munich Re), the world's biggest re-insurer, worth DM2.85bn ($1.54bn) and DM1.16bn respectively.

While Deutsche Bank had long been known to have holdings in such leading financial blue chips, the size of the stakes has taken many by surprise.

The values of the holdings, which are contained in a full prospectus to be published at the end of this week, are based on market prices at the end of June.

The list, which contains all the bank's holdings between 10 per cent and the 20 per cent level at which it is statutorily obliged to publish its participations, contains a number of other, albeit smaller, surprises.

Thus Deutsche Bank owns 10 per cent of Linde, the engineering and industrial gases group, worth some DM448m; and a similar-sized stake in Heidelberger Zement, a big cement manufacturer, worth DM258m at end-June.

Led astray by blinkered vision

Stephen Fidler and Maggie Urry look at the failure of Magnet's buy-out

To the British banker who passed the kitchen showroom daily on his way to work over the summer, Magnet seemed to be holding a non-stop sale. The 40 per cent discounts available in June, then "only until July 31", were extended into August and beyond. When the invitation to help finance the £629m management buy-out for Magnet crossed his desk, he declined, suspecting all was far from well.

The advertisement of Magnet's problems in the country's high streets was, however, just one minor difficulty in a deal which has faced trouble from the beginning. Magnet's announcement on Tuesday that it was discussing a financial restructuring with its bankers, only a few months after finalising its management buy-out, was just the latest element in this unhappy saga.

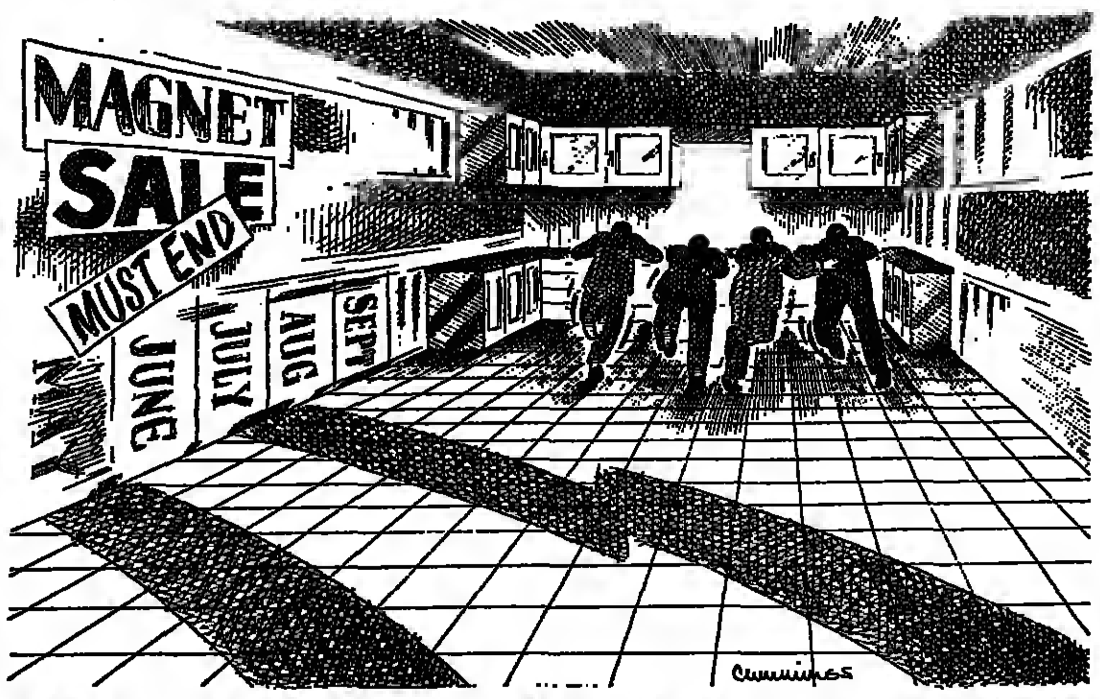
Yet at one time Magnet – now a manufacturer and retailer of kitchens, bedroom furniture and joinery products – was a stock market favourite, with profits rising rapidly. Mr Tom Duxbury, chairman and chief executive, was regarded as a brilliant businessman. Having first built up Magnet, he took a back seat when it merged with Southerns Evans in 1975, only to reappear in the top job in 1985.

It was he who planned the group's shift in strategy from the supplying of building products to the trade towards retailing. Although the changeover was not immediately successful – as trade customers were alienated before the retail business was built up – the strategy came to be seen as a winning one as UK consumer spending rose sharply.

City disenchantment set in, though, when, shortly after a £71m rights issue in 1987, the company's own stockbroker suddenly slashed its profit forecast. Although profits continued to grow, the company repeatedly failed to meet the expectations of the analysts, and the shares failed to perform.

Perhaps Mr Duxbury's character – he is described as an entrepreneur and an optimist – would not allow him to sweat out the City's disapproval. Instead, in January this year he said he would take Magnet private, through a leveraged buy-out.

This instantly changed the City's view of the company and its shares. Some investors argued that a management buy-out of a quoted company was little better than insider trading, while some institutions were concerned that if Magnet succeeded it would encourage a spate of buy-outs, depriving investors of companies to invest in. Others thought that the shares, which had been trading at about 200p before the bid, were worth more than the 300p on offer. Sun Life led a fight for better terms for the convertible shareholders, who wanted a cash alternative to the combination of cash and paper on offer.



After much wrangling, the bid finally went through on July 3, with only convertible holders winning their battle. No counter-bidder appeared to offer a higher price.

Magnet had secured underwriters for the more than £550m in loans needed to finance the buy-out, promising bankers that profits would rise by 15 per cent a year for the next three years.

For the nina banks which underwrote the transaction, the lengthy battle with shareholders proved axpensive. The transaction had to go unconditional before they could syndicate the financing to other banks. When they tried it, the problems of other highly-indabted retailers, such as MFI, had already begun to emerge and Magnet's sales suggested all was not well there. Other banks shied away, and the syndication effort had to be abandoned in early August.

Bankers Trust, the New York bank which led the financing, was highly regarded as a financial innovator. And it was keen to extend this reputation into Europe.

The Magnet deal appeared special in a number of ways. One of the largest leveraged buy-outs to date, it appeared that it would promote that controversial concept in the UK. It also included a large £190m slab of so-called mezzanine debt. The developing market in these subordinated loans to finance acquisitions and leveraged buy-outs – the UK version of the junk bond market – was expected to prove highly profitable.

In the event, instead of advancing these concepts, the Magnet deal has undoubtedly set them back. To outsiders – Bankers Trust declines to talk about the deal – it appears that the US bank's excitement about the concepts blinded it to some of the problems of conducting buy-onts for companies such as Magnet, whose vulnerability to recession and higb interest rates was heightened by vertical integration. One UK institutional shareholder said yesterday that he had urged caution on Bankers Trust, but the bank had "ignored our advice".

With the benefit of hindsight, it is easy to see what went wrong at Magnet. Trading conditions in retailing had been worsening since last year, and even before the bid went through some retailers were reporting profit falls.

Magnet was in the middle of an ambitious expansion programme, determined to open scores of new high street shops concentrating on the kitchen ranges. But Magnet's competitors were suffering falling sales, and reacting with aggressive promotions and price cuts.

Saddled with the huge debt taken on as part of the buy-out, Magnet's ability to retaliate has been restricted. Its profit forecast will not be met, breaking covenants on the loans and necessitating the talks with bankers, who are being asked to consider a financial restructuring. Meanwhile, two other retail buy-outs, at MFI and Lowndes Queensway, also heavily exposed to the housing market, have each announced refinancings.

A letter sent to shareholders by Magnet's two independent directors – Mr Brian Haggas, chairman of John Haggas, the textile group, and Mr David Malpas, managing director of Tesco, the food retailer – within the offer document in April shows a remarkable prescience.

They warned: "The company has not yet achieved a mature retailing formula sucb as to give confidence in the company's ability to maintain this record of outstanding growth into the future." The expansion strategy had risks, the greater dependence on retailing increased the group's exposure to a downturn in consumer spending, and that spending was slowing down, they said. "Moreover, tbe management's own internal estimates of the company's profitability have over the recent past proved optimistic."

Both the independent directors resigned when tha bid went through.

Institutional shareholders who accepted the cash bid are now glad they did. Indeed, one fund manager said yesterday that, after initially opposing the offer, "we were most anxious to help the deal through" as it neared its closing date, fearful that if it failed the shares would drop sharply as it became plain that the trading environment worsened.

That expectation has, sadly for Magnet, come to pass. As one official at Bankers Trust admitted to another banker: "We had just no idea what we were letting ourselves in for."

Looking back, it is difficult to see how the company's managers and Bankers Trust failed to heed the warning flags that were flying even as the buy-out was being finalised. Perhaps the pushiness and natural optimism of Magnet's chairman Mr Duxbury and Bankers Trust's determination to spread the gospel of the leveraged buy-out with its rich fee income proved an unfortunate combination.

Orkem considers bid for Coates

By William Dawkins in Paris and Nikki Tait in London

SHARES in Coates Brothers jumped from 267p to 408p yesterday, on news that Orkem, the French state-owned chemicals producer which already holds a 40.6 per cent stake in the UK inks and resins maker, is considering a full bid for the group.

Last night, Coates said only it was reviewing the proposal and would make a further announcement in due course. Orkem, meanwhile, is awaiting a reply from the UK company, officials said yesterday.

However, London analysts speculated that the French company might need to pay in excess of 450p ($7.2) a share if it wished to secure a recommendation. Althougb Orkem clearly starts from a strong position and Coates chairman, Mr John Youngman, maintained last night both companies "would like to achieve a friendly outcome", a significant 18 per cent block of shares remains in family hands. At yesterday's closing price, Coates is valued at around £260m ($416).

If it is completed, the deal will the latest in a series of acquisitions by French chemicals companies. Rhône-Poulenc, also state-owned, paid FFr8.47bn ($1.35bn) last month for RTZ's speciality chemicals division and GAF-SSC, a US speciality chemicals producer. If successful, it will be the first big Orkem acquisition since its spectacular turnround from a loss of FFr2.6bn in 1986 to consolidated earnings of FFr4bn in the following two years.

It will also add to speculation over the outcome of the French Government's current internal review of the organisation of the state-owned chemicals industry.

Mr Serge Tchuruk, current president of Orkem, who has masterminded its recovery, is due to become President of Total-CFP, the government-controlled oil group, next year. The Government is considering several options for Orkem'a future following the changeover, including merging the group with another state-owned company.

The French company acquired its present shareholding in Coates in early 1988, when Coates bought Lorilleaux International, an Orkem subsidiary specialising in industrial inks, in a £57m deal.

Under tbe deal, Orkem acquired a 33.4 per cent interest in Coates, whicb it then increased by way of a partial offer. The transaction effectively deterred any further interest in Coates by Australian entrepreneur Mr John Spalvins, who had built up a 20 per cent-plus stake in the UK company. This was sold shortly afterwards.

As part of the transaction, Orkem and Coates – who have other trading links, such as a joint venture company in the resin field – entered an agreement governing their relationship for the next five years. This envisaged Orkem would not take its stake over 46 per cent. However, the French company also reserved its right to make a full, non-recommended offer if it wished, subject to certain procedures.

The bid approach comes shortly after Coates' announcement of a 9 per cent increase in interim pre-tax profits to £18.5m.

Burmah in Polish joint venture

By Steven Butler in London

BURMAH OIL, the world's biggest specialist lubricants group, yesterday announced the establishment of a joint venture in Poland which it believes could result eventually in a rapid increase in lubricants sales in the country.

Burmah's Castrol subsidiary in Germany has taken a 49 per cent share in Explonaft, a new joint venture company, with Polish partners which are lubricants manufacturers, refiners and technical institutes.

The venture is believed to be the first for a foreign lubricants company in eastern Europe. Burmah is looking to the region to be one of its areas of growth in the next decade, as the economies in the region relax central controls.

The venture will be involved in setting nationwide specifications for industrial lubricants and providing technical recommendations for industry. It will also sell high-quality mineral oils and offer servicea in industrial cleaning and related fields.

Burmah described the venture as strategically important for expanding its business in Poland, which is currently relatively small, since it will be involved in setting specifications for the products it sells and will gain it contact with a wide range of Polish industries.

The market will continue to be supplied from its German subsidiary, although manufacturing in Poland might be considered at a future date. Burmah has in recent years begun to sell lubricants to shipping companies, car manufacturers and other industries in Poland.

The amount of capital involved in the venture was described as small, less than $1m.

The entire Polisb lubricants market is currently about 150m litres annually, compared with Burmah's worldwide sales of about 1.2bn litres. But Polish demand is expected to grow.

Continuing to enter new, growing markets has been a key plank in Burmah'a strategy. Demand for lubricants has been stagnant or declining in the industrialised countries, although Burmah's subsidiary, Castrol, bas maintained growth by expanding its market share.

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Béghin-Say to shed paper interests

By George Graham in Paris

BEGHIN-SAY, the French sugar and oils group controlled by Italy's Ferruzzi, is to sell its remaining paper interests for FFr2.03bn ($325m).

The company said yesterday that it planned to sell its remaining 50 per cent stake in Papeterie Béghin-Corbehem to Feldmühle of West Germany, which had already bought 50 per cent in May last year for FFr575m.

The 50 per cent stake Béghin-Say still holds in Kaysersberg, market leader in tissue papers in France with its Lotus brand, will be sold on to a company controlled by Montedison, the Italian chemicals company which also forms part of the Ferruzzi group.

The other 50 per cent was sold in July 1987 to James River, the second largest US paper group behind Scott Paper, for FFr1.5bn.

At the same time, Béghin-Say said it would sell the 25 per cent it owned in ATB, a holding company for its various trading interests, to another company in the Ferruzzi group for FFr258m.

Earlier plans for a rights issue have been shelved, as these three operations will bring in FFr2.28bn in cash by the end of next year, the company said.

Béghin-Say's first-half net profits totalled FFr323m, up 40 per cent from the same period of 1988 if the capital gain on the sale of the first half of Corbehem to Feldmühle is excluded from last year's result.

Total operating profits rose by two thirds to FFr1.16bn, on sales 26 per cent higher at FFr18.63bn.

The principal sugar and alcohol division showed a gain of 49 per cent with operating profits of FFr450m, while profits on Béghin-Say's corn starch activities tripled to FFr418m.

Profits in the oil division rose by 15 per cent to FFr266m, and the group said it expected margins to improve following the restructuring operations undertaken, especially in the Lesieur divisions it recently acquired from the rival sugar group St Louis.

Esab lifts profit by 30% in first nine months

By John Burton

ESAB, the world's leading welding-equipment manufacturer, posted a 30 per cent improvement in profits after financial items during the first nine months of 1989.

The Swedish group took profits to SKr272m ($42.5m) compared with SKr210m a year earlier.

The company predicts that profits for 1989 will surpass those of last year, when earnings surged by 52 per cent to SKr312m.

Sales for the first nine months rose by 3 per cent to SKr3.48bn, while orders increased by 14 per cent to SKr3.73bn.

The nine-months report does not include two recent acquisitions in the US.

In June Esab bought L-Tec, a welding equipment company with sales in 1988 of $165m.

Esab said L-Tec's results, which could boost the Swedish company's sales by as much as 25 per cent, will be consolidated in its final report for 1989.

The Swedish group has also agreed to buy Alloy Rods, another US welding-equipment manufacturer, which had sales of around $100m in 1988.

Esab expects to take over management of the company before the end of the year.

The group said earnings per share had risen to SKr36 during the first nine months, compared to SKr27 last year while earnings for the whole of 1988 were SKr39.

Nokia to acquire cable stake

By Laura Raun in Amsterdam

NOKIA, the Finnish industrial group, plans to take a 51 per cent controlling stake in NKF Holding of the Netherlands, a small cable company, for around Fl 290m ($139.4m) to form an international cable group.

The new group, with combined sales of Fl 1.54bn, intends to become a "significant European manufacturer" of cables through organic growth and further acquisitions, the two companies announced yesterday.

The group will comprise Nokia's cable activities and those of NKF, which is involved in electricity and telecommunications cables.

NKF management, expanded by two Nokia appointments, will run the new group. Nokia, which is Finland's largest private-sector industrial concern, will also fill two vacancies on NKF's supervisory board.

The 51 per cent stake is being acquired from Venture Capital Investments (VCI) and other Dutch institutional investors. The remainder is listed on the Amsterdam Stock Exchange but no public bid is planned.

Nokia is engaged in cables, machinery, electronics and industrial products – paper, chemicals and rubber – with total sales of Fl 10.5bn in 1988. *More than half of that comes from abroad.*

Nokia Cables, with turnover of Fl 1.1bn, has plants in Finland, West Germany and Turkey.

NKF, with revenue of Fl 443m, has three plants in the Netherlands and a stake in Kaiser Kabel of Berlin. It also provides consulting services, network design, project planning and training in the cable business.

NKF was spun-off from Philips, the Dutch electronics giant, in 1986 through a buy-out by management and Venture Capital Investments. NKF managers are keeping their shares although the company refused to say how much they own.

● Fermenta, the Swedish antibiotics, chemicals and finance group, expects its profits after financial items in 1989 to jump by 81 per cent to SKr200m ($31m) from SKr110m.

The company made the prediction in its eight-month report which showed that profits declined by 76 per cent to SKr180m during the period, continuing a recovery from losses three years ago when Fermenta was at the centre of a financial scandal under Refaat el-Sayed, its former owner.

Sales increased by 126 per cent to SKr3.86bn during the first eight months.

Almost half was attributed to Independent, a finance company, acquired at the end of 1988 as part of the company's strategy of expanding into financial services.

Chemicals and pharmaceutical operations accounted for SKr1.85bn in sales.

SKF sticks to $72 a share for McGill

By John Burton

SKF'S tender bid for McGill Manufacturing, the US bearings-maker, has turned into a possible hostile takeover battle with the Swedish roller-bearing group sticking by its offer, despite its rejection by the McGill board.

When it made its offer of $72 a share last month, SKF said the bid, worth around $105m, was conditional upon acceptance by the McGill board. The offer is due to expire on November 7.

The Swedish group refused yesterday to comment on future actions concerning the takeover, but it seems almost certain that it would have to raise its bid offer to succeed, since the share price of McGill has climbed to $74 in heavy trading during the past week.

A previous bid by SKF to take over McGill was rejected by Mr James McGill, the company's owner and chairman.

SKF wants to acquire McGill as part of its strategy of increasing its presence in the US to avoid currency fluctuations and possible anti-trust problems. SKF was forced to raise the prices of some its products in the US earlier this year after the US Government claimed it had engaged dumping.

Skanska ahead 57% as building boom eases

By John Burton in Stockholm

SKANSKA, Sweden's largest construction company, increased profits after financial items by 57 per cent to SKr1.48bn ($230m) from SKr946m during the first eight months of 1989.

The group said the building boom was beginning to ease but predicted profits before extraordinary items for 1989 would reach nearly SKr2bn.

The inclusion of extraordinary gains on a share sale, however, would boost the profits to nearly SKr2.8bn. The company sold its shareholding in the investment company, Opus, as well as in the construction-installation company, Calor-Celsius, earlier this year, netting SKr797m.

Sales during the first eight months rose by 28 per cent to SKr17.64bn from SKr13.67bn.

Skanska said the profitability of the construction industry remained satisfactory, but added that the boom in the Swedish building market had reached a plateau.

Demand has eased, due to price rises which were mainly the result of a labour shortage driving up wages and the increasing cost of building materials. The building boom has been caused by a housing shortage in Sweden's main cities. The number of housing starts rose by 23 per cent during the first half of 1989 compared to a year earlier.

Skanska noted that, while orders from the Swedish market rose by 17 per cent during the first eight months, foreign orders were weak.

Of the group's total order backlog of SKr29.2bn at the end of August, foreign operations accounted for 11 per cent, a fall of 2 percentage points from a year ago.

● Swedish office equipment company Esselte has made a bid of $43.50 per share for the outstanding shares in Esselte Business Systems, its US unit.

Esselte already owns 78 per cent of the shares in the offshoot.

Although Esselte has not previously made a formal bid for the outstanding shares, it said earlier this month it was willing to pay about $40 per share for the stock.

Weakening markets slow three US steelmakers

By James Buchan in New York

THREE leading US integrated steelmakers yesterday reported sharply lower third-quarter earnings, as weakening markets and rising labour and materials costs conspired to squeeze profit margins at the mills.

The poor third-quarter results from Bethlehem Steel, Armco and National Steel mark a pause after three years of vigorous recovery at the integrated steelmakers. Wall Street is watching intently to see if the industry, which has drastically slimmed since the recession of the early 1980s, can weather the current weakness in steel markets including cars and building products.

Bethlehem Steel, the largest steelmaker after USX, said yesterday its third-quarter earnings had halved to $46.9m or 54 cents a share from $101.4m or $1.27 during the highly-profitable 1988 third quarter. Some $15m of the decline came because of problems at the blast furnace at Bethlehem's big Sparrows Point works.

The decline in sales, from $1.48bn to $1.27bn, shows how shipments are declining.

Armco, which recently sold 40 per cent of its Eastern steel division to Kawasaki Steel of Japan, said its earnings fell from $36m or 41 cents a share to $33m or 35 cents a share. Because of the Eastern division deal, sales and operating income were halved (to $441.1m and $28.3m) but Armco booked hefty interest income from the $350m it received from Kawasaki.

National Steel, which is owned 50:50 by the National Intergroup industrial holding company and NKK of Japan, also saw declining profits. National Intergroup said its equity profits from the company declined in the September quarter – Intergroup's second 1990 quarter – to $6.9m from $10.9m. For the six months, equity earnings from steel were ahead at $22.5m against $20.7m.

At the nine-month stage, Bethlehem reported earnings of $195.7m or $2.85 a share, sharply down from the $337.3m or $4.56 a share in the first nine months of 1988. However, part of the decline was attributable to a $105m special charge to profits to cover the restructuring of two operations. Sales were little changed at $4.10bn against $4.16bn.

Armco reported net income for the nine months of $149.5m or $1.69 a share on sales of $2.00bn. However, these results were struck after a slew of special charges and gains. The 1988 nine-month results were $113.4m, $1.23 a share and $2.40bn.

McLennan buys German firm

By Patrick Cockburn

MARSH & McLennan Companies, the international insurance and reinsurance broking group, is to take over Gradman & Holler, the private West German insurance broking firm for an undisclosed sum to be paid in cash and shares.

Mr Philip J Brown, Jr., deputy chairman of Marsh & McLennan Bowring, said in London yesterday that the group would increase an existing stake in West Germany's leading insurance broking company to over 50 per cent giving it management control from next year.

Marsh & McLennan acquired 15 per cent of Gradman & Holler 15 years ago.

Although Marsh & McLennan will not disclose the terms of the takeover, still subject to regulatory approval in West Germany, analysts said yesterday that it was probably worth about DM250m to DM350m ($136m to $190m), a high multiple of Gradman & Holler's annual fees of DM100m.

The German firm becomes part of Marsh & McLennan Bowring which is responsible for Marsh & McLennan's broking operations outside north and south America.

Mr Frank Tasco, chairman of Marsh & McLennan, said yesterday that it was important for his company to position itself for the single European market in 1992. He said: "This agreement will establish the most extensive and integrated insurance broking system in Europe."

Marsh & McLennan were careful yesterday to describe the takeover as an agreement to combine the two companies but added that their general philosophy was to own 100 per cent of their operations.

Dr Roland Seul will become chairman of Gradman & Holler and will head Marsh & McLennan Bowring's operations in continental Europe.

Arthur Andersen fee income up 19.9%

By David Waller

ARTHUR ANDERSEN, the international professional services firm which recently pulled out of merger talks with Price Waterhouse, increased its fee income by 19.9 per cent to $3.38bn in the year to the end of August, up from $2.82bn in the previous year.

The results were the first since the firm agreed a radical restructuring in January this year, dividing itself into two strategic business units, one handling management consultancy, the other audit accounting and tax. As in previous years, the powerhouse of Andersen's growth was the consulting division.

Revenues from consulting vaulted by 29.6 per cent to $1.44bn ($1.11bn). Accounting and audit fees rose by 12 per cent to $1.27bn ($1.13bn) and tax revenue rose to $671m ($575m) up by 17 per cent.

REPUBLIC NATIONAL BANK OF NEW YORK

A subsidiary of REPUBLIC NEW YORK CORPORATION

Consolidated Statements of Condition
(In Thousands)

Assets	September 30, 1989	September 30, 1988
Cash and due from banks	$ 342,200	$ 344,028
Interest bearing deposits with banks	10,163,060	8,419,757
Precious metals	203,155	98,326
Investment securities	2,945,188	3,509,508
Trading account assets	188,432	193,675
Federal funds sold and securities purchased under resale agreements	319,661	1,176,251
Loans, net of unearned income	4,244,515	4,119,358
Allowance for possible loan losses	(328,629)	(167,784)
Loans (net)	3,915,886	3,951,574
Customers' liability on acceptances	1,711,092	2,006,135
Premises and equipment	318,182	349,882
Accrued interest receivable	339,508	317,127
Investment in affiliate	474,776	—
Other assets	430,921	449,087
Total assets	$21,352,061	$20,815,350

Liabilities and Stockholder's Equity	September 30, 1989	September 30, 1988
Non-interest bearing deposits:		
In domestic offices	$ 695,330	$ 662,004
In foreign offices	152,289	205,818
Interest bearing deposits:		
In domestic offices	4,897,147	4,887,177
In foreign offices	8,795,446	8,836,593
Total deposits	14,540,212	14,591,392
Short-term borrowings	1,088,794	357,590
Acceptances outstanding	1,718,594	2,007,797
Accrued interest payable	284,497	220,890
Other liabilities	515,540	420,918
Long-term debt	1,785,905	1,594,841
Stockholder's Equity:		
Cumulative preferred stock, $100 par value: 1,000,000 shares outstanding	100,000	100,000
Common stock, $100 par value: 4,800,000 shares authorized; 3,550,000 shares outstanding	355,000	355,000
Surplus	860,000	860,000
Retained earnings	125,519	306,922
Total stockholder's equity	1,440,519	1,621,922
Total liabilities and stockholder's equity	$21,352,061	$20,815,350
Letters of credit outstanding	$ 1,318,003	$ 1,221,228

The portion of the investment in precious metals not hedged by forward sales was $8.3 million and $5.2 million in 1989 and 1988, respectively.

REPUBLIC NEW YORK CORPORATION
Summary of Results
(In Thousands Except Per Share Data)

	Nine Months Ended September 30, 1989*	Nine Months Ended September 30, 1988	Three Months Ended September 30, 1989*	Three Months Ended September 30, 1988
Net income (loss)	$ (69,809)	$119,601	$(155,353)	$ 38,704
Cash dividends declared on common stock	$ 28,960	$ 28,976	$ 9,672	$ 9,013
Per common share:				
Net income (loss)	$ (2.58)	$ 3.52	$ [illegible]	$ 1.12
Cash dividends declared	$ .96	$ .90	$ .32	$ .30
Average common shares outstanding	30,124	29,932	30,225	30,030

Results reflect a provision for loan losses of $200 million for developing countries' debt obligations.

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MORTGAGE RATE

With effect from 1 November 1989 House Mortgage Rate will be increased from 13·75% to 14·75% per annum.

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Floating Rate Notes Due October, 1994

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 26th October, 1989 to 26th April, 1990 the Rate of Interest on the Notes will be 8⅜% per annum. The interest payable on the relevant Interest Payment Date, 26th April, 1990 will be U.S. $10,585.07 per U.S. $250,000 Note.

Agent Bank:
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Bank of Tokyo (Curaçao) Holding N.V.

U.S.$30,000,000
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Payment of the principal of, and interest on, the Notes is unconditionally and irrevocably guaranteed by

The Bank of Tokyo, Ltd.
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In accordance with the provisions of the Agency Agreement between Bank of Tokyo (Curaçao) Holding N.V., The Bank of Tokyo Ltd., and Citibank N.A., dated October 16, 1978, notice is hereby given that the Rate of interest has been fixed at 8.6875%, and that the interest payable on the relevant Interest Payment Date, April 26, 1990 against Coupon No. 23 will be U.S. $43.92.

October 26, 1989
By: Citibank, N.A., (CSSI Dept.), Agent Bank. CITIBANK

Johannesburg Consolidated Investment Company, Limited
(Incorporated in the Republic of South Africa)
Registration No. 01/00429/06

SUB-DIVISION OF SHARES

At the Annual General Meeting held on 25 October 1989 shareholders passed a Special Resolution to sub-divide the shares in the capital of the Company in the ratio of 20 for 1. The resolution has been submitted for registration.

As from 4 December 1989 the authorised ordinary share capital of the Company will consist of 200,000,000 ordinary shares of 10 cents each and the issued capital of 147,466,000 shares of 10 cents each, ranking pari passu.

Members of the Company will shortly receive a circular requesting them to exchange their current share certificates or other documents of title to ordinary shares in the Company for new certificates.

Johannesburg, 25 October 1989

INTERNATIONAL COMPANIES AND FINANCE

High metals prices boost earnings at Asarco

By Kenneth Gooding, Mining Correspondent

HIGH METALS prices helped boost the third-quarter net earnings of Asarco, a leading world producer of copper, zinc, lead and silver, by 14 per cent, from a restated $46.16m or $1.10 a share to $52.7m or $1.25.

Mr Richard de J Osborne, chairman, said: "The outlook for Asarco's businesses for the balance of the year remains good. Demand for copper, lead and zinc continues to be strong and supplies limited."

The New Jersey based company has sold its one-third interest in an asbestos mining partnership for $11.7m and hopes to sell its Rapatee coal mine in southern Illinois to a management group.

Results for the third quarter of 1989 included four non-recurring items which had the net effect of lowering 1989 earnings by $6.4m after tax or 15 cents a ahare. Sales in the third quarter advanced by 5 per cent to $522m. Sales in the first nine months rose by 21 per cent to $1.68bn. Nat earnings in the nine months were 28 per cent ahead of the restated figure for 1988 at $172m or $4.08 a share.

SA austerity measures hit First National Bank

By Jim Jones in Johannesburg

THE South African Government's austerity measures aimed at curbing consumer demand and imports began to take a toll on First National Bank, the country's largest banking group, in the year ending in September.

Total advances rose by 9.4 per cent to R23.09bn ($8.7bn) over the year, against 29 per cent in the 1988 financial year when consumers were being *encouraged to spend to help* the economy.

Bad debt provisions charged against profits were raised by 46 per cent to R182m. Total assets increased to R30.35bn from R28.15bn in 1988, interest income rose by 61 per cent to R4.56bn while interest expenditure was 79 per cent higher than a year before at R3.37bn.

In Johannesburg yesterday Mr Barry Swart, tha bank's managing director, said the increase in bad debt provisions was largely due to specific losses. The agricultural sector has been particularly badly affected and an increasing number of farmers are being pushed into bankruptcy as the *prime overdraft lending rate* has increased to 21 per cent.

Mr Swart does not expect another prime rate increase until early next yearbut only if the authorities decide money supply is growing too rapidly and imports levels are preventing an improvement in the country's foreign exchange reserves.

He points out, bowever, that private consumer demand for credit has shrunk and that most demand is from corporate borrowers who tend to be importers of plant and equipment.

Earnings meanwhile rose to 377 cents a ahare from 285 cents and the year's ordinary *dividend has been lifted to 130* cents from 112.5 cents.

Mr Swart believes dividend cover needs to be increased to at least 3.3 per cent if capital creation is to be sufficient to allow asset growth matching inflation.

Japan's rise in capital spending lifts Fanuc

By Stefan Wagstyl in Tokyo

FANUC, the world's largest maker of numerically controlled equipment for machine tools, yesterday reported a 20 per cent increase in interim sales to Y85.7bn ($603m) due to strong capital investment by industry in Japan and overseas.

Pre-tax profits for the period to the end of September rose 34.6 per cent to Y31.3bn.

For the year to the end of March 1990, Fanuc forecasts parent company profits of Y63.3bn, up 32.9 per cent, on sales of Y180.2bn, 20.8 per cent higher.

Fanuc is raising its dividend to Y18 a share for the year, the second increase in succession.

The biggest sales increases were recorded in the core division, prodncing equipment related to machine tools, where turnover increased by 19.2 per cent to Y67.4bn. Sales of industrial robots rose by a modest 8.5 per cent to Y6.1bn.

NZ sets forest sell-off for June

BIDS for the sale of New Zealand's state-owned forests, which is likely to be the country's biggest privatisation so far, will be called by June 30 next year at the latest, New Zealand Forestry Corporation, the sales agent said, Reuter reports.

Mr Andy Kirkland, the corporation's managing director, said potential bnyers would have at least six months to evaluate the 550,000 hectares on offer. Strong interest in the sale from Japanese, US and South Korean companies is expected.

Among tbe New Zealand companias interasted are Fletcher Challenge, the forest products and industrial group, Carter Holt Harvey and Elders Resources.

The sale, covering about half New Zealand's total commercial forests, will be offered in about 90 units.

Mr Kirkland gave no estimate of bow much the sale would raise for the Government, but analysts' estimates hava varied widely, from NZ$1bn ($591m) to NZ$7bn. The proceeds are earmarked for cutting public debt.

The mostly pine state forests produce about 5m cubic metres of timber a year, but the forests are young and output is forecast to more than donble by early in the next century.

Fuji Electric up 43% to Y9.5bn

FUJI ELECTRIC, one of Japan's largest alactrical machinery makers, yesterday posted a 43.3 per cent increase in interim pre-tax profits to Y9.5bn ($67m) due to strong sales, cost cuts and a rise in profits from financial investments, writes Stefan Wagstyl.

Sales for tha parent company in the six months to the end of September were 13.3 per cent higher at Y243.3bn. The company is raising its interim dividend to Y3.5 a share from Y3.

Sales rose 12.3 per cent in the heavy electrical machinery division, 12 per cent in control and distribntion equipment and 9 per cent in vending machines. Year-end sales are forecast to rise 12.7 per cent to Y540bn and profits to hit Y20bn, np 28.5 per cent.

Correction

NTT

A CHART in Tnesday's newspaper showing the revennes from digital data exchanges of Nippon Telegrapb & Telephone inadvertently sbowed annnal revannes decreasing instead of rising. The correct figures for financial years ending in March are as follows: 1986 Y10.3bn, 1987 Y15.8bn, 1988 Y22.4bn, 1989 Y33.3bn. Also, the number of telephone subscribers has risen to 50.3m from 40m as stated.

American Barrick advances

By Kenneth Gooding

INCREASED output and an extensive hedging programme enabled American Barrick Resources, the Toronto gold mining gronp, to lift third-quarter nat earnings from US$7.44m or 12 cents a share to $11.38m or 18 cents in spite of a weakening bullion price.

Mr Robert Smith, president, said yesterday: "We are confident we will achieve our 1989 production and earnings targets."

The company has previously forecast its gold ontput will this year reach 440,000 troy ounces compared with 341,000 ounces in 1988.

American Barrick produced 114,886 troy ounces of gold in the third quarter at a casb cost of $299 an ounce compared with 90,674 ounces at $347 an ounce in the same months last year.

The average realised price of the 116,402 ounces of gold sold in the quarter was $481 an ounce compared with 86,485 ounces at $439 in the third quarter of 1988. The company's remaining projected gold prodnction for 1989 bas been hedged at a minimum of $445 an ounce.

Revenue in the third quarter rose from $38.5m to $50m, taking revenua for tha nine months to $142.3m, up from $97.75m.

Net income for the nine months was $23.68m or 39 cents a share, up from $18.75m or 31 cents.

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY- Indices of industrial production, manufacturing output (1985=100); engineering orders (£ billion); retail sales volume (1985=100); retail sales value (1985=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unem-ployed	Vacs.
1988							
1st qtr.	107.8	110.6	31.4	117.0	118.7	2,466	249.9
2nd qtr.	108.0	112.4	30.1	116.7	[illegible]	2,323	255.2
3rd qtr.	110.6	115.1	[illegible]	120.1	[illegible]	2,226	244.3
4th qtr.	110.1	117.0	[illegible]	121.2	[illegible]	2,101	244.9
November	110.1	117.0	[illegible]	121.4	[illegible]	2,105	255.2
December	109.7	116.6	[illegible]	121.1	181.9	2,037	238.3
1989							
1st qtr.	109.5	118.4	[illegible]	121.5	[illegible]	1,935	228.7
2nd qtr.	108.3	118.7	[illegible]	122.7	[illegible]	1,781	222.2
3rd qtr.				121.8		1,742	218.3
January	109.5	118.1	34.9	119.5	[illegible]	1,988	229.2
February	109.3	118.3	[illegible]	122.1	[illegible]	1,949	228.1
March	109.6	118.4	[illegible]	122.1	[illegible]	1,917	222.9
April	108.2	117.4	[illegible]	123.0	[illegible]	1,852	222.1
May	107.8	118.7	[illegible]	122.5	[illegible]	1,810	218.2
June	107.8	118.7	[illegible]	121.9	[illegible]	1,787	228.4
July	109.1	[illegible]		121.6	[illegible]	1,767	219.9
August	111.1	120.0		121.6	[illegible]	1,743	218.7
Sept.				122.1		1,695	216.4

OUTPUT- By market sector: consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1985=100); housing starts (000s, monthly average).

	Consmr. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1988							
2nd qtr.	111.5	108.3	108.6	116.1	126.3	106.8	22.3
3rd qtr.	113.5	113.3	108.0	114.5	123.7	102.1	20.4
4th qtr.	113.7	114.5	108.0	115.8	123.8	101.7	19.6
October	113.6	113.7	106.6	117.0	123.8	101.0	19.6
November	113.8	114.2	108.0	116.0	123.8	101.9	21.4
December	113.6	115.6	108.9	115.8	123.6	102.8	14.2
1989							
1st qtr.	114.3	118.5	104.2	118.3	128.4	98.3	17.6
2nd qtr.	114.1	117.6	104.5	118.5	127.4	98.7	18.5
January	113.6	120.1	104.4	118.5	127.8	99.8	16.5
February	113.7	116.4	104.0	118.6	128.3	98.1	19.4
March	114.3	118.9	104.1	118.4	129.1	98.1	16.3
April	114.7	115.1	104.8	118.5	123.0	98.6	19.4
May	115.1	118.6	106.2	118.8	120.3	98.1	16.5
June	114.9	120.0	105.6	118.8	120.4	98.1	17.5
July	115.4	120.1	104.8	119.6	120.8	98.7	14.3
August	114.9	122.9	105.5	121.0	122.8	98.0	13.6

EXTERNAL TRADE- Indices of export and import volume (1985=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1985=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn
1988							
1st qtr.	107.3	118.0	-4,626	-3,057	+738	97.0	44.84
2nd qtr.	114.8	125.2	-4,535	-2,721	+695	97.1	48.52
3rd qtr.	112.8	133.4	-5,724	-3,410	+537	97.3	50.45
4th qtr.	120.9	134.7	-6,400	-4,900	+426	98.0	51.69
November	123.8	131.3	-1,800	-1,252	+126	98.2	51.94
December	120.3	133.3	-1,819	-1,448	+152	97.6	51.89
1989							
1st qtr.	112.8	140.4	-5,960	-4,777	+261	98.7	50.46
2nd qtr.	114.7	140.2	-6,874	-4,607	+290	99.3	43.67
3rd qtr.	117.8	145.5	-6,794	-5,093	+154	99.3	42.86
January	117.1	145.1	-2,047	-1,640	+115	98.8	51.71
February	105.4	138.0	-2,216	-1,814	8	98.6	51.58
March	115.8	138.2	-1,716	-1,317	+126	98.7	50.46
April	111.5	140.0	-2,175	-1,653	+134	99.8	47.26
May	116.8	138.4	-1,772	-1,402	+58	99.0	46.09
June	117.0	142.1	-1,927	-1,652	+98	98.5	43.67
July	113.8	140.2	-2,542	-2,047	+81	99.3	43.63
August	111.1	141.1	-2,008	-2,008	+57	98.7	43.21
September	125.6	145.5	-1,940	-1,640	+36	98.1	42.88

FINANCIAL-Money supply M0, M2 and M4 (annual percentage change); bank sterling lending to private sector; building societies' net inflow; consumer credit†; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M2 %	M4 %	Bank lending £m	BS inflow £m	Cnsmr. credit £m	Base rate %
1988							
2nd qtr.	5.5	14.6	16.3	+22,986	4,173	+1,022	9.50
3rd qtr.	7.7	16.6	17.6	+22,402	3,162	+1,034	11.50
4th qtr.	7.7	16.4	17.7	+18,686	3,166	+787	12.75
November	7.7	16.5	17.4	+5,299	795	+260	13.00
December	7.7	16.2	17.6	+7,260	819	+288	13.00
1989							
1st qtr.	6.7	16.3	18.4	+21,235	2,601	+814	13.88
2nd qtr.	5.6	15.8	19.1	+21,237	1,750	+837	14.00
3rd qtr.					2,265		14.00
January	7.2	16.4	18.0	+8,826	794	+281	13.00
February	6.6	15.7	18.2	+4,780	1,094	+395	13.00
March	6.8	16.7	18.3	+7,277	713	+310	13.00
April	5.7	16.6	18.6	+7,137	1,175	+332	13.00
May	5.6	16.1	19.4	+7,351	268	+156	14.00
June	5.4	16.1	19.1	+8,899	[illegible]	+209	14.00
July	5.3	16.8	18.1	+7,588	[illegible]	+146	14.00
August	5.6	16.8	17.7	+7,442	[illegible]	+370	14.00
September							14.00

INFLATION-Indices of earnings (1985=100); basic materials and fuels; wholesale prices of manufactured products (1985=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100)

	Earn-ings*	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
1988							
1st qtr.	96.4	95.9	111.8	103.7	103.0	1,747	76.3
2nd qtr.	98.7	97.8	112.9	105.8	104.6	1,817	77.8
3rd qtr.	100.0	96.6	114.0	107.4	105.6	1,832	75.9
4th qtr.	104.1	100.1	115.3	109.1	107.0	1,837	77.5
November	103.1	99.1	115.2	109.0	106.7	1,854	77.1
December	105.8	102.6	115.6	110.8	108.5	1,821	78.0
1989							
1st qtr.	105.4	102.8	116.3	111.7	107.8	1,974	97.1
2nd qtr.	108.0	104.4	118.2	114.9	110.2	2,018	93.6
3rd qtr.				116.8	110.7	1,912	91.7
January	104.2	104.9	116.4	111.0	107.4	1,969	97.9
February	104.6	101.9	116.8	111.5	107.7	1,954	97.4
March	107.6	102.4	117.2	112.3	108.3	1,996	95.9
April	107.3	102.9	117.6	114.3	108.6	2,015	95.5
May	107.5	104.7	118.3	115.0	112.6	2,010	94.3
June	108.1	104.7	118.8	115.4	110.7	2,027	91.1
July	110.3	102.8	119.0	115.5	110.1	1,940	92.2
August	109.1	102.6	119.5	115.8	112.6	1,902	91.5
September		102.6	120.0	116.6	111.3	1,893	91.3

*Not seasonally adjusted
†Net changes in amounts outstanding, excluding bank loans.

INTERNATIONAL APPOINTMENTS

Qintex Entertainment ex-chief decides to drop resignation

QINTEX Entertainment, the 43 per cent-owned US affiliate of Mr Christopher Skase's Qintex Australia international media and resorts empire, announced that Mr David Evans, who resigned last week as president and chief executive, has reconsidered and will take over both positions until the end of the year or until a successor is named.

Mr Evans, who resigned from those posts last week, reconsidered his decision at the US board's request.

The US company, which previously announced it had filed a petition for protection under Chapter 11 of the federal bankruptcy code for itself and its two operating subsidiaries, Hal Roach Studios and Qintex Productions, added that Mr Evans will rejoin the company's board and that Mr Jonathan Lloyd, chief financial officer and treasurer, has been elected to the company's nine-member board.

Qintex Entertainment has been facing litigation from MGM/United Artists Communications in connection with a US$1.5bn merger deal which collapsed earlier this month.

★ ★ ★

REEBOK International, the US sportswear concern 32 per cent owned by Edinburgh-based Pentland Group, said that Mr C. Josaph LaBonte has resigned as president, chief operating officer and a director to resume the presidency of Vantage Group, a California-based venture capital and mergers and acquisition company he founded in 1983.

Mr LaBonte's titles and responsibilities are to be assumed by Mr Paul Fireman, Reebok chairman and chief executive officer.

★ ★ ★

STORAGE Technology, a leading US maker of disk and tape drives for computer systems, appointed Mr Michael Klatman as vice president, corporate communications.

Mr Klatman, 39, joins Storagetek after nine years at Data General where, most recently, he was director of corporate public relations.

Former Ogilvy Group head becomes American Express senior executive

AMERICAN EXPRESS, the US financial and travel-related services group, has elected Mr Kenneth Roman as executive vica prasident, corporata affairs and communications, reporting to Mr James D. Robinson III, chairman and chief executive.

Mr Roman, 59, had been chairman and chief executive of the US-based Ogilvy Group, the world's fifth largest advertising agency recently acquired by WPP, the international advertising and marketing group based in the UK.

Ha will join American Express in December and succeed Mr Harry Freeman, who is to retire that month.

★ ★ ★

KENNAMETAL, a leading US provider of tools worldwide for working on metal, coal, concrete and other snbstances, announced that Mr Henry Dykema has joined the company as *chief financial officer*.

The Pennsylvania-based business was founded in 1938 by Mr Philip McKenna, who invented and prodnced a unique tungsten-titanium carbide composition that became the first commercially successful steel-cutting carbide.

He died in 1969, but the company has gone from strength to strength in family hands, although with its stock listed on the *NYSE* for over 20 years.

Mr Quentin McKenna, a cousin of the founder, is currently chairman and chief executive, but ba plans to retire in October 1991. He was recently succeeded in his other previously held post of president by Mr Robert McGeehan.

Mr Dykema had been chief *financial* officer of *Insilco*, based in Connecticut.

★ ★ ★

DAIWA SECURITIES, the second largest Japanese securities house, announced that Mr Masahiro Dozen, 53, formerly a vice president, has becoma president. He succeeds Mr Sadakane Doi, who was named *vice chairman* of the board.

Two senior managing directors, Mr Koichi Kimura and Mr Yoshimasa Yamashita, were promoted to the post of vice president. Mr Yawara Tazaki will resign from his role of vice president on December 12 to become president of Daiwa Real Estate.

Mr Dozen joined Daiwa Securities in 1959 fresh from university. He assumed posts overseeing the company's internat ional business operations and equity trading, and became a board member in 1982.

★ ★ ★

COCA-COLA, of the US, the world's largest soft drinks group, has promoted two European executives to corporate vice presidents in charge of worldwide manufacturing and quality assurance.

Mr George Gourlay, a 48-year-old British national who joined Coca-Cola in London in 1970, becomes head of corporate manufacturing operations.

Mr Anton Amon, an Austrian who joined Coca-Cola in New York in 1970, was named *to head the company's world*wida quality assurance programme. He was previously in charge of operations at Coca-Cola Enterprises.

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In accordance with the provisions of the notes, notice is hereby given that for the interest period October 26, 1989 to January 26, 1990 the notes will carry an interest rate of 8 15/16 o/o per annum.

Interest payable on the relevant interest payment date 26th January 1990 will amount to USdol 228.40 - per USdol 10,000 note.

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NEW ISSUE OCTOBER 1989

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October, 1989

Du Pont boosts earnings on back of strong demand

By Martin Dickson in New York

DU PONT, the largest chemical company in the US, yesterday reported an 18.7 per cent rise in third-quarter net income, helped by strong international demand for white pigments and higher worldwide crude oil prices.

The company raised its quarterly dividend from $1.05 a share to $1.20. It reported third-quarter net income of $547m, compared to $461m in the same period last year. Earnings per share were up 24 per cent at $2.36, against $1.91, while sales rose 9 per cent to $8.6bn.

Mr Edgar Woolard, the chairman, noted thet the figures had been achieved despita a stronger dollar and a weaker housing market. He reiterated that the company expected 1989 to be its fourth consecutive year of increased earnings.

The mix of Du Pont's business, orientated towards speciality products and with limited exposure to commodity chemicals, is expected by analysts to help it outperform rivals as the US economy slows.

Underlining this, third quarter earnings for its industrial products businesses rose 57 per cent, from $99m to $155m. The company said this was dne mainly to higher selling prices of and strong demand for white pigments, particularly in international markets, and a solid performance from industrial chemicals.

Fibres earnings were up 16 per cent at $180m, which reflected good demand for most textile products in the US market, though this had been partly offset internationally by the straugth of the dollar.

Polymers reported profits down 12 per cent at $107m because of softening demand and lower prices for ethylene-based products used in packaging and to make industrial polymers.

Petroleum earnings rose 38 per cent to $98m, while coal profits fell 29 per cent to $41m. Diversified businesses more than doubled profits to $64m, helped by a strong performance from agricultural products.

For the nine months, net income was $2bn, against $1.7bn in the same period of 1988, while earnings per share were $8.46, up 20 per cent.

Delta Air bucks trend as income jumps 33%

By Martin Dickson

DELTA AIR Lines, the third ranking US domestic carrier, yesterday bucked the trend towards weak results in the sector with a 33 per cent jump in first-quarter net income.

The airline has benefited from the turmoil at rival Eastern Air Lines, which filed for Chapter 11 bankruptcy protection early this year amid a pilots' strike and is still rebuilding its flight numbers.

Delta said net income for the September quarter reached $133.1m, with earnings per share of $2.53, against $100m and $2.03 in the same period of last year.

Operating revenues were $2.2bn, up 16 per cent, revenue passenger miles totalled 16bn, compared to 14bn, and the passenger mile yield was 12.82 cents, compared to 12.60 cents for last year's quarter.

Mr Thomas Roeck, a senior vice-president, said factors contributing to the excellent passenger revenue growth – apart from Eastern's problems – included increased effectiveness of Delta's hub system in capturing traffic, improvements in its revenue management system and growth in international operations.

Operating expenses in the quarter were up 14 per cent to $1.98bn.

Airline stocks, helped by strong gains in revenue per passenger mile and a wave of takeover bids, performed well in the first half of the year. But the recent collapse of the UAL buy-out and a weakening market have changed the picture. Fuel costs have risen and promotional fare cuts over the summer have eaten into earnings.

Last week AMR, the parent company of American Airlines, the largest domestic carrier, reported an 8.8 per cent drop in net income.

This week USAir, the seventh largest carrier, surprised many analysts with a third-quarter loss of $77.7m.

● PWA, the debt-laden Calgary-based company which owns Canadian Airlines International, is to sell the 15 aircraft it acquired this year with the purchase of Wardair, writes David Owen from Toronto.

The sale is expected to yield more than US$600m over three years. PWA agreed to buy its lossmaking rival in January for C$248m.

The aircraft to be sold comprise 12 Airbus 310s acquired last year and three ageing Boeing 747-100s. PWA said that the move would help to pare debt.

In the first nine months, earnings totalled a paltry C$217,000.

Norfolk Southern held in check

By Roderick Oram in New York

NORFOLK SOUTHERN, a leading railway holding company, has reported lower third-quarter profits that reflect a flattening of US economic activity.

Net earnings fell more sharply than some analysts had forecast to $150.5m or 87 cents a share for the three months ended September. This was down 16 per cent from $179.4m or $1 a year earlier. Revenues slipped 1.8 per cent to $1.14bn from $1.16bn.

Despite a weaker overall economic picture, "there were bright spots," said Mr Arnold McKinnon, chairman. "Strong export and utility markets produced a 2.4 per cent growth in coal revenues while increased production at the new auto plants on our lines accounted for a 2.4 per cent increase in automotive revenues."

For the first nine months, Norfolk Southern turned in flat net profits of $458m or $2.61 a share, against $456.1m or $2.51, on revenues of $3.43bn against $3.3bn.

The company's railway operating costs rose sharply to 78.9 per cent of revenues in the third quarter from 72.3 per cent a year earlier.

Analysts believe the company will weathar the economic slowdown thanks to sectors such as coal exports. Moreover, it is staffing its trains more efficiently and trimming payrolls.

On Tuesday, it said it would buy back up to 45m of its shares when market conditions were favourable. The latest tranche, worth some $1.7bn at current prices, will follow from its nearly complete purchase of 20m shares begun in 1987.

The two tranches together will reduce its outstanding shares by more than 26 per cent.

Westinghouse sees at least 10% growth

By Our Financial Staff

WESTINGHOUSE Electric, the second biggest maker of electrical equipment in the US, is registering steady growth. Mr John Morous, chairman, said fourth-quarter earnings would be up 10 per cent or more over the 1988 period.

Mr Morous told industry analysts that earnings would grow at a "double-digit pace in the fourth quarter."

Westinghouse, a diversified manufacturing group, earned $1.60 a share in the third quarter on revenues of $3.13bn, up from $1.51 per share on revenues of $3.06bn a year earlier.

Mr Morous said his company's Thermo King unit, a manufacturer of refrigeration units for trucks and other vehicles, was on the verge of signing joint ventures to build manufacturing plants in the Soviet Union and China.

Domtex back in black as denim prices increase

By Robert Gibbens in Montreal

DOMINION Textiles, the world's largest denim producer, reports a dramatic turnround in profitability in the first quarter of fiscal year 1990.

First-quarter ended September 30 saw a profit of C$4.7m (US$4.0m) or 12 cents a share, against a loss of C$2.3m a year earlier, on sales of C$348m, up 13 per cent.

Domtex has become a global company making denim and yarn, non-woven products, interlinings, special apparel fabrics and industrial products.

It was caught last year by a sudden collapse in US denim prices just as it brought new capacity onstream.

However, denim prices have come back strongly, said Mr Charles Hantho, president, and Domtex was running almost to capacity.

Business was also good in other product groups.

Mr Hantho expects the full year to show a "significant rebound," though results may not match fiscal 1988 when Domtex earned C$63.1m or C$2.93 a share on sales of C$1.2bn.

Mr Hantho said that Domtex is set for the liberalisation of trade barriers in Europe after 1992 with modern, low-cost plants inside the European Community and in Tunisia.

Domtex sees great potential in the European denim market. Its emphasis for the moment is on the US and European markets, while in the medium term capacity expansion will come in South-east Asia from bases in Hong Kong and Singapore. A two-year wave of rationalisation in its Canadian plants is almost completed.

Downstream side slows oil groups

By James Buchan in New York

MOBIL and Chevron, two leading US oil companies, reported stagnant earnings for the third quarter because of declining profitability in their refining and chemicals businesses.

Like Exxon, which reported on Monday, both companies are enjoying higher profits in their exploration and production businesses, thanks to the 25 per cent rise in crude oil prices since the third quarter of 1988.

However, rising crude prices are squeezing profit margins in refining and marketing, while prices of some petrochemical-derived products such as polyethylene have fallen.

Mobil, the second biggest oil company after Exxon, said its earnings for the third quarter were 4 per cent lower than in the 1988 third quarter, at $532m or $1.30 a share.

The results were distorted by several special factors, with net income from operations actually down 18 per cent at $380m, according to Mr Allen Murray, Mobil's chairman. The reasons for the fall were a 34 per cent decline in chemicals profits and a 38 per cent decline in US refining and marketing earnings. Revenues were up 4 per cent at $13.64bn.

Chevron, the fourth largest producer, said its earnings were $417m or $1.22 a share, down modestly from the $420m or $1.23 a share of the 1988 third quarter.

Again, higher profits from US exploration and production were matched by the steep declines in the US downstream business, and chemicals and corporate expenses. Sales revenues advanced from $7.16bn to $7.98bn.

For the nine months, Mobil reported earnings of $1.36bn or $3.32 a share, down 16 per cent, while Chevron said its earnings were $1.13bn or $3.31, down 29 per cent.

● Imperial Oil, Canada's largest integrated oil company which is 70 per cent-owned by Exxon of the US, has reported a 14 per cent drop in third-quarter earnings, writes Robert Gibbens from Montreal.

The numbers for the third quarter and nine months reflect oil property writedowns in western Canada, the cost of acquiring Texaco Canada and lower production. The figures disappointed the market.

Third-quarter earnings were C$112m (US$95m) or 59 cents a share, down from C$130m or 79 cents a year earlier, on revenues of C$2.7bn against C$1.8bn.

The fourth quarter should benefit from asset sales, under a programme agreed with the federal Government after the group's takeover of Texaco Canada.

Nine-month earnings were C$369m or C$2.10 a share, down from C$428m or C$2.61 a year earlier, on revennes of C$7.3bn against C$5.8bn.

● Alberta Energy, a big resource group controlled by the Alberta Government, reported nine-month profits of C$27m or 38 cents a share, down from C$31.6m or 48 cents, on revenues of C$378m against C$360m. Third-quarter earnings were 7 cents a share against 2 cents a year earlier.

Cray rallies but sees flat sales

By Roderick Oram in New York

CRAY RESEARCH, the leading US supercomputer maker, has reported stronger than expected third-quarter profits but once again warned of flat sales and weaker profits for the year as a whole.

Net profits for the three months ended September 30 were $30.6m, or $1.04 a share, compared with $22.6m, or 73 cents, a year earlier. Some analysts had been forecasting profits closer to 70 cents for the latest period. Sales rose to $210.2m from $145.2m.

The Minneapolis-based company's earnings are volatile because it sells only a small number of multi-million dollar computers each quarter. In the latest three months, 17 systems were delivered. At quarter end the order backlog had slipped to $315m from $340m three months earlier.

Mr Marcelo Gumucio, Cray's president and chief operating officer, said sales would pick up in the fourth quarter but remain below the year-earlier record. For the year and in 1990 sales were likely to be little changed from 1988's $756m. Full-year net this year was likely to be between 11 and 13 per cent of sales, compared to 40 to 45 per cent for 1988.

By far the dominant US supercompnter maker, Cray has unsettled the markets this year with unfavourable sales and earnings forecasts and a plan to spin off promising computer technology into a separate company run by its founder, Dr Seymour Cray.

It also announced its first job cuts earlier this month, to trim about 7 per cent of its work force. It attributed the cuts to advances in manufacturing technology and a switch to a more advanced supercomputer.

Nortel posts broad-based solid growth

By David Owen in Toronto

NORTHERN Telecom, the Canadian telecommunications group which is pinning future growth prospects on a new range of fibre-optic products, reported a strong 34 per cent advance in quarterly profit.

The result was due to a solid, broad-based performance and the impact of wide-ranging cost-cutting programmes.

Third quarter earnings rose to US$75m or 31 cents a share, compared with $56m or 23 cents in the corresponding year-earlier period.

Revenues increased 13 per cent to $1.41 bn from $1.25bn in 1988. The group's end-quarter order backlog stood at $1.82bn, against $1.65bn a year ago.

For the nine months ended September 30, income was flat at $192m or 80 cents a share on revenues of $4.32 bn, versus $188m or 78 cents on revenues of $3.87 bn.

The Mississauga-based company said that international business was responsible for the most significant revenue growth, with increased sales in Europe and the Pacific rim.

Sales, general and administrative expenses, and investment in research and development declined markedly as a proportion of revenues in the most recent period.

Funds absorbed by sales amounted to just 19.3 per cent of revenues, against 21.1 per cent a year ago.

Genentech doubles earnings

By James Buchan

GENENTECH, the leading US biotechnology company, has reported third-quarter earnings twice those in the same period of 1988. The rise was thanks to demand for its genetically-engineered heart drug, Activase.

The result, which showed earnings of $11.4m or 13 cents a share, were more than double the $5.3m or 6 cents a share of the 1988 September quarter and 20 per cent ahead of the $9.6m or 11 cents of this year's June quarter. But Activase sales were lower in the third quarter than in the second as the market prepared for the introduction later this year or early next of a competitor, SmithKline Beecham's Eminase.

Genentech pioneered commercial production of biotech drugs with Activase, which clears blood clots in heart attacks, and the Protropin growth hormone. It said that sales jumped from $51.6m in the third quarter of 1988 to $100m this time.

Mr Robert Swanson, chief executive and co-founder of Genentech, said: "We continue to be on target for meeting our goal of increasing sales 20 to 25 per cent this year."

Net sales of Protropin rose to $32.4m from $23.4m in the third quarter of 1988, while Activase sales rose from $29.1m to $43.6m. However, sales of the latter drug were lower than in the second quarter amid a dispute among doctors and researchers about whether the drug's high price was justified.

Johnson & Johnson moves up

By Martin Dickson in New York

JOHNSON & Johnson, the large US health and household products group, has reported a 10.4 per cent increase in third quarter net earnings, as strong growth in pharmaceuticals and international consumer sales outweighed a slowdown in the US health care market.

The results were in line with market expectations. They showed net profits of $265m and earnings per share of 80 cents, against $240m and 71 cents in the third quarter of last year. Sales were up 11.5 per cent at $2.45bn.

The consumer business produced an 8.3 per cent rise in worldwide sales. Although international sales were up 19.4 per cent to $510m, largely because of improvements in the Brazilian economy, US sales dipped 1.2 per cent to $490m.

The company – in line with rivals – is suffering from softening and competition in the US retail market.

Pharmaceutical sales were up 19.4 per cent worldwide to $658m, which the company said reflected the introduction of new products.

Procter & Gamble net profits leap 38%

By Roderick Oram in New York

PROCTER & Gamble has reported a big jump in fiscal first-quarter income thanks to improved profit margins, volume growth for its range of household and personal care products and favourable settlement of litigation.

Net profits for tha three months ended September 30 rose 38 per cent to $551m, or $1.66 a share, from $400m, or $1.18 a year earlier. Sales rose 5.8 per cent to $5.57bn from $5.27bn. The latest figures included a pre-tax gain of $125m which Proctor & Gamble will receive from three other food companies to settle a dispute over Duncan Hines, a brand of cookies made by Procter & Gamble.

Analysts expect further profit growth, particularly abroad, under the leadership of Mr Edwin Artzt who will take over as chairman in January. Mr Artzt is credited with improving the company's overseas performance.

Strike at mine hurts Cominco

COMINCO, the Vancouver-based metals group controlled by an international consortium led by Teck Corporation, felt the impact of the 13 weeks' Highland Valley Copper strike and lower fertiliser prices in the third quarter, writes Robert Gibbens.

Earnings were C$34.2m (US$29.2m) or 42 cents a share, down from C$49.8m or 60 cents a year earlier, and 88 cents in the second quarter. Sales were C$330m against C$372m.

But nine-month net profit was still higher, at C$175.5m or C$2.16 a share, against C$128.3m or C$1.51 on sales of C$1.2bn against C$1.16bn.

Control Data in black for first time this year

By Karen Zagor in New York

CONTROL DATA, the struggling US computer hardware and service group, has reported net profits for the first time this year, due partly to gains from asset sales.

The Minneapolis-based company, which recently lost its chief financial officer and whose chief executive will soon step down, said third-quarter pre-tax earnings of $16.3m included an $8.5m gain from restructuring.

Net income for the three months was $9.8m or 23 cents a share against a loss of $2.4m or 6 cents the previous year. Revenues were down 9 per cent to $763m from $841.4m.

For the nine months, Control Data reported a uet loss of $484m or $11.51 a share against a profit of $14.5m or 34 cents a year earlier. Revenues were $2.41bo against $2.7bn.

The company, which pulled out of the supercomputer business earlier this year and cut its computer products business, said every business group except its semiconductor unit was profitable before interest and taxes in the quarter.

The best performance was from the computer products group, which returned to profitability.

The company said its cash position had improved because of $250m in cash proceeds from the October 2 sale of Imprimis, its disc drive subsidiary.

Control Data also recently sold shares in Silicon Graphics for $36.3m in cash and a short-term $17m note.

"Part of the funds from the Imprimis transaction will be used to make a tender offer for the company's 12¾ per cent senior notes, and the remainder will be used to strengthen the balance sheet," said Mr Lawreoce Perlman, Control Data's president.

New Hampshire utility bid raised

By Roderick Oram

NORTHEAST Utilities has opened a further round of bidding for Public Service of New Hampshire, the New England utility driven into bankruptcy by its ill-fated investment in the Seabrook nuclear power plant.

Northeast Utilities, based in Connecticut, raised its offer to $2.25bn from $1.85bn mainly by increasing the payout to PSNH's existing shareholders who would be left virtually empty handed by earlier proposals. The improvement won the backing for the first time of PSNH's official shareholder committee.

Shareholders would receive $500m in cash, preferred stock and new Seabrook bonds if the Seabrook plant starts np. It is complete but local opposition has prevented it getting an operating licence.

The new offer put Northeast slightly ahead of other bidders.

This advertisement is issued in accordance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland ("The Stock Exchange"). It does not constitute an invitation to the public to subscribe for or purchase any shares in Atlantic Resources plc.

Application has been made to the Stock Exchange for the grant of permission to deal in the new Ordinary Shares and the Warrants in the Unlisted Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing.

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Cawley Sheerin Wynne, 1-2 Upper Hatch Street, Dublin 2.

Clifford-Chance, Blackfriars House, 19 New Bridge Street, London EC4V 6BY.

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and during normal business hours on 26th and 27th October from The Company Announcements Office, Irish Stock Exchange, 28 Anglesea Street, Dublin 2 and The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD.

26th October, 1989.

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In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the six months 26th October, 1989 to 26th April, 1990 has been fixed at 8⅝ per cent per annum and that the coupon amount payable on coupon no. 14 due on 26th April, 1990 will be U.S. $4,423.61

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Milan Court, Companies Registry Nr. 356 - Vol. 10 - Section 84

1989 HALF-YEARLY REPORT

Notice is hereby given that copies of 1989 half-yearly report of Montedison S.p.A. are available, upon request, at the offices of its UK subsidiary, Montedison (U.K.) Limited, 7/8 Lygon Place, Ebury Street, London, as well as at the London Office of Morgan Guaranty Trust Company of New York, Morgan House, 1 Angel Court, att. Mr. David White - Securities Service Dept.

Société Nationale des Chemins de Fer Belges (S.N.C.B.)

Nationale Maatschappij der Belgische Spoorwegen (N.M.B.S.)

US$ 75,000,000 Floating Rate Notes due 1991

guaranteed by The Kingdom of Belgium

(of which US$ 50,000,000 have been issued as an Initial Tranche)

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from October 25, 1989 to January 25, 1990 the Notes will carry an Interest rate of 8¾ % p.a.

The interest payable on the relevant interest payment date, January 25, 1990 against coupon n° 16 will be US$ 2,236.11 per Note of US$ 100,000 nominal and US$ 5,590.28 per note of US$ 250,000 nominal.

The Agent Bank

KREDIETBANK

S.A. LUXEMBOURGEOISE

BANK OF SCOTLAND

INTEREST RATES

Bank of Scotland announces the following changes in interest rates effective from 26th October 1989:

Home Loan Rate 14.75% per annum

Stabilised Charging Rate 14.80% per annum

BANK OF SCOTLAND

A FRIEND FOR LIFE

Bank of Scotland, Head Office, The Mound, Edinburgh EH1 1YZ

CITICORP

U.S. $150,000,000

Retractable Notes Due October 30, 1996

Notice is hereby given that the new Rate of Interest on the subject Notes has been fixed at 8.602% for the period October 30, 1989 to October 30, 1994. Value of Coupons numbers 6,7, 8,9 and 10 in respect of each US$5,000 nominal amount of the Notes will be US$430.10.

October 26, 1989, London

By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

INTERNATIONAL CAPITAL MARKETS

London futures exchange launches Ecu contract

By Katharine Campbell

THE London International Financial Futures Exchange today introduces the first three-month interest rate future based on Ecus, the European composite currency.

The launch will be accompanied by little of the fanfare that has characterised recent contract débuts. Liffe officials do not underestimate the difficulty of creating a successful futures contract from an illiquid cash market.

The exchange has heeded encouragement from the Bank of England, which is enthusiastic that the product will enhance the Bank's year-old Ecu-denominated treasury bill issuance programme, and is proceeding with the Ecu future it first contemplated three years ago.

Mr Michael Jenkins, Liffe chief executive, said yesterday: "Liquidity will be difficult to establish at the start. But that is why we have instituted the (novel) designated market-maker system."

Two Belgian banks, Générale Bank and Kredietbank, together with the Italian San Paolo di Torino, will staff the new pit for a minimum of six months, making a three-point bid offer spread in the first contract month, valid for a minimum of 25 lots.

Mr Jenkins said he would have liked to have had "a couple more market-makers, perhaps with a wider geographic spread." Several British and American institutions said they regarded the new contract as premature.

But Liffe's recent European marketing programme has engendered a good deal of interest, at least in theory, primarily from the treasury departments of European banks. They could use the future to hedge Ecu loans and deposits, to facilitate operations in the growing market in forward rate agreements, to hedge treasury bill positions and to tailor risk exposure arising from Ecu swap trading activities.

Located in a rather cramped position next to the three-month Euromark future, the Ecu future could also be used to encourage "spread" trading between the two instruments.

Matif, the French futures exchange, has decided not to launch a similar product because it believes liquidity will be strictly limited. There had been an agreement between the two exchanges that if both decided to proceed with the same contract – as happened with the Euromark future earlier this year – it would be sensible to establish a clearing link so that members could offset positions on the two exchanges.

Instead the Matif is considering a long Ecu bond future some time next year.

Second Ecu bond sale by France

By George Graham in Paris

THE French Government will today auction another Ecu250m to Ecu350m of its new bond denominated in the European currency unit.

The sale, which falls outside the Government's normal programme of regular sales on the first Thursday of each month, will be the second auction of the OAT Ecu 8.5 per cent 1997 bond, which is the French Government's first attempt at funding in Ecus.

The Government initially sold Ecu1bn of the bond in April through a syndication lead-managed by Crédit Lyonnais and Paribas, targeted especially at individual investors. It followed up in July by selling a further Ecu352m at the regular monthly auction.

Treasury officials want to keep their Ecu funding separate from their regular French franc operations. In addition, they want to retain the freedom to take advantage of windows of opportunity in the relatively narrow Ecu market.

They have therefore decided to launch this second auction today instead of waiting for the regular sale which takes place next Thursday.

The sale will coincide with the auction of FFr1bn to FFr2bn of bonds issued by Crédit Local de France, an offshoot of the state financial institution Caisse des Dépôts et Consignations, which specialises in local authority finance.

● The Swiss Options and Financial Futures Exchange (Soffex) will extend its trading hours from October 30 to match longer trading sessions on the Zurich bourse from that date, Reuter reports from Zurich.

Soffex trading will close no later than 15:15 local time. If trading on the Zurich bourse ends earlier than that, Soffex trading will end 15 minutes after the Zurich close.

The Zurich exchange said last month it would stay open until 15:00 local time, about one hour longer than at present.

Soffex opens at 09:30 and trades continuously. Options will be exercisable until 16:15 local, instead of 15:30, which it is as present.

Liffe plans to review capacity of its systems

By Katharine Campbell

LIFFE is considering ways of enhancing the capacity of its trade registration and processing systems in the wake of failures which have left members with unknown risk exposures and days of backlog to sort out.

In the last couple of days, some of its largest members have been privately sharply critical of a failure to anticipate recent heavy volumes at the exchange.

"We had significant performance improvements in the pipeline. But it is clear these should be given a higher priority in the light of last Monday," said Mr Roger Barton, director of technical services at Liffe, referring to the events of October 16, when exchange turnover reached a record 383,000 contracts, nearly twice as high as the previous busiest day only two weeks earlier.

The Trade Registration System, which has hitherto gained high marks since its introduction a year ago, ground to a halt after Liffe reached the 350,000 contract mark that Monday afternoon. TRS electronically registers, matches and confirms trades before they are fed into the clearing system.

The system was substantially out of commission for more than two hours and, when it resumed, response times slowed from seconds to a matter of up to five minutes or more, frustrated members complained. "What would have happened if we had had a real crash?" one said.

A problem brought on by changes to TRS software during last weekend caused the system to be withdrawn this Tuesday afternoon, which resulted in members offices' being cut off once again for up to two hours.

A week ago, despite back office staff at the larger broking houses staying until the small hours of Tuesday morning to try and ascertain their positions, many completed the next day's trading session without knowing what the firm's overall risk exposure was.

While proposals that the exchange close were rejected, *one large clearing member* pulled a trader from the busy German bund pit for the whole of Tuesday simply to stem the paper flow.

While Liffe can claim that all trades were technically matched by the end of October 16 session, (11pm, in fact) some firms spent until Friday chasing trades that had been allocated to the wrong clients. The exchange argues that such problems were exacerbated by inefficiencies in members' own systems.

TRS had been designed to cope with volumes three times as large as the daily average, but this formula needs to be re-examined, Mr Barton said. Volumes on October 16 were more than four times this year's daily average.

Mixed start for Australia future

By Chris Sherwell in Sydney

TRADING in a new Australian semi-government bond futures contract got off to a brisk start yesterday, following its launch on the Sydney Futures Exchange, only to weaken later.

Figures showed 78 of the novel contracts were traded in the first five minutes, but only 1,200 overall – less than half the record 2,348 figure for the first day of trading in the exchange's three-year government bond contract.

Mr Les Hosking, the exchange's chief executive, called it "an excellent beginning" on a day when attention was focused on existing contracts by the release of better-than-expected balance of payments figures.

Creation of the contract reflects increasing investor interest in semi-government bonds as an alternative to federal government Treasury bonds, whose supply and level of trading has declined as Canberra has generated federal budget surpluses.

Semi-government bonds are securities typically issued by state government entities – state government borrowing authorities, state utilities and government-owned corporations with federal or state government guarantees.

Currently there is around A$50bn of semi-government stock outstanding, compared with A$34.5bn in federal stock. The funds are used for capital works such as electricity and water supply, road construction, ports and railways, education, hospitals and telephone services.

The idea behind the futures contract is to provide investors with a more accurate vehicle for hedging risk on physical holdings of semi-government bonds than the existing three-year and 10-year. Treasury bond futures contracts.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on October 25

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Alberta 9¾ 95	600	104⅛	104⅝	+0⅛	+0¼	8.39
Austria 9⅝ 93	140	102⅞	103⅛	+0⅛	+0⅛	8.50
B.F.C.E. 8¾ 94	175	99⅛	99⅞	0	+0⅛	8.43
B.F.C.E. 9¼ 95	150	103¼	103¾	+0⅛	+0⅛	8.48
Brit. Tel. Fin. 9⅞ 98	250	104½	105	+0⅛	+0⅝	8.60
Canada 9 96	1000	103⅝	104⅝	+0⅝	+0½	8.18
C.C.C.E 9¼ 95	300	103⅛	103⅛	+0⅛	+0⅝	8.42
C.N.C.A 9⅜ 93	150	102⅝	102⅞	+0¼	+0¼	5.65
Credit National 8¼ 93	200	99⅝	99¾	0	+0⅝	8.35
Credit National 7⅞ 92	100	97½	98	0	+0⅝	8.38
Credit National 9½ 92	160	†102⅛	102¼	+0⅛	+0⅛	8.59
Dai-Ichi Kan 9⅝ 92	150	102⅞	103	+0⅛	+0¼	8.55
Denmark 8¼ 94	150	98⅞	98⅞	+0⅞	+0½	8.60
Euro Credit Card Tst 9 99	325	101⅛	101⅛	0	+0⅛	8.77
E.E.C. 7 91	100	97⅝	97⅞	0	+0¼	8.26
E.E.C. 10 93	140	104⅛	104¼	0	+0⅛	8.36
Eurofima 10⅛ 93	100	†104⅝	105	0	+0¼	8.43
Elec. De France 9 98	200	102¾	103¼	+0⅛	+0⅛	8.47
Elec. De France 9⅛ 99	200	105⅛	105¾	+0⅛	+0½	8.59
Finland 9 96	250	102⅛	102⅛	+0⅛	+1¼	8.45
Finn.Exp.Cd. 8½ 92	200	99⅞	100⅛	0	0	8.40
Finn. Exp. Cd. 9⅜ 95	200	103½	104	+0⅛	+0¼	8.55
Ford Motor Credit 8 91	250	†98⅞	99⅝	0	-0⅛	8.62
Gen.Elec.Cap.Corp. 9 93	500	†101⅝	101⅞	0	0	8.50
Gen.Elec.Cap.Crp.10 1/2 91	300	102⅛	102⅞	+0⅛	+0⅛	8.36
G.M.A.C. 9 96	300	101	101⅛	0	+0⅛	8.76
Gen. Mtrs. Corp. 9⅜ 92	200	101⅛	101¾	0	+0¼	8.45
IBM Credit Corp. 8⅞ 91	250	100⅞	101⅝	0	+0¼	8.24
IBM Credit Corp. 9 92	250	102	102⅛	0	+0¼	8.02
IBM Credit Corp. 9½ 92	250	102⅛	102⅛	+0⅛	+0¼	8.29
IBM Credit Corp. 10 92	200	103⅛	103⅞	0	-0½	8.31
Italy 9½ 95	1000	104½	105	+0⅛	+0½	8.46
Italy 9⅝ 99	1000	106⅛	106⅝	+0⅛	-0½	8.61
Itoh C. W/W 4⅝ 94	1000	100⅛	101⅛	+0⅛	+1	4.32
Japan Dev. Bank 10 96	200	106⅝	107⅛	-0⅛	-0⅛	8.57
KFW Intl. Fin. 9 94	300	101⅛	102¼	0	+0½	8.47
L.T.C.B. of Japan 9¼ 92	200	101⅝	102	+0⅛	+0⅛	8.61
Metropolis Tokyo 9½ 93	200	102⅛	103¼	+0⅛	+0⅛	8.37
Nippon Tel.&Tel. 9⅝ 98	250	104⅝	105	+0¼	+0⅝	8.58
Norway 8¾ 93	500	101⅝	101⅛	+0⅛	+0½	8.24
Portugal 8⅛ 91	300	†98½	99	0	0	9.17
Sumitomo Bank 9⅝ 92	150	†102⅝	103⅛	+0⅞	+0⅛	8.47
Sumitomo Corp. W/W 4 93	1500	†110½	111½	+0½	+4½	0.94
Sweden 8⅞ 96	200	101⅛	101⅞	+0⅛	+0¼	8.39
Sweden 8⅛ 92	200	†99⅝	99⅞	0	-0⅛	8.63
Toyota 9½ 91	200	102	102⅛	0	+0⅛	8.35
Toyota Mtr.Corp. W/W 4 93	1500	105⅛	106¼	-0⅝	+1⅛	2.36
Victorian Rep 11⅝ 92	150	106	106⅝	-0⅛	+0⅛	8.75
World Bank 8⅝ 99	1500	101	101¼	+0⅛	+0⅝	8.40
World Bank 9 97	300	102⅝	103	+0¼	+0⅝	8.47
World Bank 9 93	300	102¼	102⅛	+0⅛	+0⅝	8.21
World Bank 9¼ 98	300	104⅝	104⅛	+0⅛	+0½	8.51
World Bank 9⅝ 99	500	106⅞	107⅛	+0⅛	+0⅝	8.49
World Bank 9¾ 96	300	106	106¼	+0⅛	+0⅜	8.47

Average price change... On day +0⅛ on week +0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Asian Dev. Bk. 6 94	200	93½	94⅛	0	-0⅛	7.47
Austria 6¼ 99	750	96½	97⅛	+0¼	+0⅝	7.21
Bk. Frgn. Econ. USSR 7 96	750	†94½	95½	0	+0⅛	8.01
Bank of Tokyo 5¼ 93	100	94¼	94¾	0	-0⅛	7.66
Commerzbank o/s. 5⅜ 93	300	93⅝	94⅛	+0⅛	+0⅝	7.59
Credit Foncier 6¼ 99	500	96⅛	96¼	+0⅛	-0⅛	8.27
E.I.B. 6¼ 99	600	93⅝	94	+0⅛	+0½	7.21
E.I.B. 6½ 99	300	99⅞	95⅝	+0¼	+0¼	7.21
E.I.B. 6⅝ 96	600	96⅞	97½	+0¼	+0½	7.18
E.I.B. 6¾ 95	300	98⅛	98⅞	0	+0⅝	7.19
Euro.Coal&Steel 5⅞ 97	175	91⅛	92	0	0	7.39
Eurofima 6¼ 96	100	92⅝	93⅛	0	-0⅝	7.67
Elec De France 5¾ 97	300	90⅜	91	+0⅛	0	7.37
Hydro-Quebec 6¼ 99	300	96⅝	96¼	+0⅛	+0⅛	7.29
Japan Dev. Bk. 5⅝ 95	300	90⅛	91	-0⅛	-0½	7.50
Japan Finance 5¼ 97	100	89½	90⅛	+0⅛	-0⅛	7.60
I.A.D.B. 7¼ 99	300	99⅝	100⅛	+0⅛	+0½	7.26
Ireland 6½ 97	300	93⅞	94⅝	-0⅛	-0¼	7.54
Ireland 7¼ 99	500	98⅛	98⅞	-0¼	-0⅛	7.46
Malaysia 6¼ 94	150	95⅝	96⅛	0	0	7.28
Nat. West Bk. PLC 6 98	300	89⅛	90½	+0¼	-0¼	7.61
N.H.L. Finance 6¼ 95	200	†91⅝	92⅛	-0⅛	-0⅛	7.99
Nippon Telg.&Tel. 6 95	400	93¼	94	+0½	-0⅝	6.53
Oesters. Kontbk. 5 93	300	92⅛	93⅜	0	+0⅛	7.48
Portugal 5¾ 92	150	95⅞	96½	0	0	7.28
Portugal 6⅝ 95	150	95⅞	96⅝	0	-0⅛	7.44
Privatbanken 5¼ 93	150	92⅝	93⅛	0	-0⅛	7.73
Royal Insurance 5½ 92	300	94⅛	95¼	-0½	-0⅛	7.79
Turkey 6½ 95	500	91⅝	92⅝	-0½	-0¼	8.35
Union Bk. Finland 5½ 94	200	92	92½	0	+0¼	7.70
World Bank 6 98	500	91⅛	92⅛	+0⅛	+0¼	7.22
World Bk. 6¼ 97	600	93¼	94⅜	+0¼	+0¼	7.78
World Bank 6⅛ 99	600	96⅝	97	+0¼	+0½	7.20

Average price change... On day +0⅜ on week +0⅛

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
African Dev.Bk. 5 96	150	†90½	91½	+0⅝	+0⅞	6.69
Asfinag 5 03	100	†86	87	-0⅛	-2⅝	6.51
B.F.C.E. 4½ 98	200	†89⅛	90	-0⅝	+1	6.04
B.M.W. Fin. Neth. 5 13	150	†86	86¼	-1¼	0	6.13
Britannia B/S. 4¼ 94	100	†88½	89½	-0⅛	-0¼	7.11
CIR. Int. W/W 3 93	125	†88	89	+0¾	+1⅝	6.57
Credit Lyonnais 4¾ 00	100	†86½	87	+0⅝	-0¼	6.52
E.I.B. 4⅛ 98	150	†90	90½	+0¾	+1½	6.10
Finn. Exp. Cd. 8¼ 92	75	†100¼	100⅛	+0⅛	-0⅛	8.05
Fletcher Chall. 4⅞ 98	150	†87	88	+3¾	+5⅛	6.87
I.A.D.B. 6 2004	200	†98	98¼	0	0	6.19
Kobe City 4⅛ 98	150	†88	88½	-0¼	+0¼	6.43
Leeds Perm. B/S. 4¼ 93	200	†90	90½	0	-1	7.40
Malaysia 5¼ 98	100	†84	85	0	-0¼	7.76
Maxwell Comm.Crp. 5 95	150	†83½	84	+2⅝	+2¼	8.76
Nat. Bk. Hungary 5½ 94	75	†88½	90	+0¼	+1	8.13
Nationwide Ang.B/S. 4 93	200	†90	91½	0	-0⅛	6.95
Prov. Newfoundland 5 03	150	†86¼	86⅞	+1	+2	6.48
Thailand 4⅝ 95	200	†84	85	0	-0¼	8.11
World Bank 5 03	150	†86½	87	0	0	6.48

Average price change... On day +0¼ on week +0½

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Canada 6⅛ 91	80	100⅛	100½	0	-0⅛	5.79
Canada 5⅝ 93	80	99⅞	100⅛	+0⅛	0	5.62
Eurofima 5 1995	20	96⅛	97	+0⅛	-0⅛	5.73
E.I.B. 4⅞ 93	30	97⅛	97⅛	0	-0⅛	5.75
Ireland 5⅛ 93	30	97⅛	98⅛	-0⅝	-0⅛	5.80
Norway 5⅛ 95	50	97⅞	98⅛	0	-0⅛	5.55
Sweden 4⅝ 93	50	96⅛	96⅝	0	-0¼	5.73
World Bank 5⅝ 98	10	96⅛	96⅝	-0⅛	-0⅛	5.67
World Bank 7 94	20	104⅛	105¼	0	-0⅛	5.70

Average price change... On day +0 on week -0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
Abbey Nat. 10⅛ 94 C$	150	98	98½	0	+0½	10.71
Abbey Nat. 11⅝ 95 £	100	97	97½	+0¼	+0⅝	12.33
Aegon 7¾ 92 FL	100	99¾	100⅛	0	+0⅝	7.90
Alg. Bk. Ned. 5¾ 93 FL	200	93⅞	93⅞	+0¼	+0⅛	7.95
Austria 7½ 94 ECU	100	99¼	95⅛	+0¼	-0⅛	8.93
Bk.Nova Scot.14⅝ 90 A$	75	†96	97	+0¼	+0⅛	18.15
Barclays Aus.13½ 91 A$	100	95½	96	+0⅛	+0¼	16.17
Belgium 8⅛ 99 Ecu	150	97	97½	+0⅛	-0¼	8.89
BP Capital 9⅛ 93 £	100	92⅛	92⅝	+0⅛	+0⅛	12.54
British Airways 10 98 £	100	89½	90	+0⅛	+0⅛	11.98
Brit. Telecom 9⅛ 93 £	150	92⅝	92⅛	+0⅛	+0⅛	12.29
Comm.Bk.Aust. 12⅝ 93A$	100	†91⅝	92⅛	+0⅝	-0¼	15.67
Comm.Bk.Aus.13½ 94 NZ$	60	104⅛	105⅛	+0⅛	+0⅛	12.39
Credit Foncier 9 96 Ecu	100	100	100½	+0⅝	-0⅛	8.93
CrLocalFrance 9¼ 92Ecu	100	100⅛	100½	0	-0⅝	9.10
Deut.Bk.Aus. 13¼ 93 A$	125	94⅞	95⅛	+0⅛	0	15.02
Deutsche Bk.Fin. 15 94 A$	100	100⅝	101	+0⅛	-0⅝	14.72
E.I.B. 7 96 LFr	100	†95½	96⅛	0	-0⅛	7.82
E.I.B. 7¼ 99 FL	150	96⅛	96⅛	0	+0⅛	7.62
E.I.B. 9 99 Ecu	150	100¼	100⅛	0	-0⅛	8.90
Eurofima 7⅛ 99 Ecu	100	95⅜	95⅞	+0¼	+0⅛	8.88
Export Dv.Crp.8⅜ 92Ecu	100	99¼	99⅞	0	-0⅛	8.94
Fed.Bus.Dv.Bk. 9 94 Ecu	100	99⅛	99½	+0⅛	-0¼	9.18
Fed.Bus.Dv.Bk.9¼ 92 C$	75	†97⅞	98⅛	0	0	10.56
Fed.Bus.Dv.Bk.10½ 93C$	50	†99⅝	100⅛	0	+0⅛	10.50
Ferr. Stato 7⅛ 93 Ecu	100	95¼	95⅛	-0⅛	-0⅝	9.25
Ford Cr.Can.10⅛ 95 C$	100	†99⅛	100⅛	0	0	10.71
Ford Cred.Can.10⅞ 96C$	125	101⅛	101⅛	0	+0⅛	10.54
Ford Cred.Fund.10⅜ 93£	60	94⅛	94⅛	+0⅛	+0⅛	12.55
G.M.A.C.Canada 11 3/494C$	100	103¼	103⅞	0	+0½	10.68
Heineken 7⅛ 94 FL	150	100⅛	100⅛	-0⅛	-0⅛	7.73
Hydro-Quebec 11 99 C$	400	103⅞	103⅝	0	+0⅝	10.37
Lloyds Bank 10⅛ 98 £	150	90⅛	90⅞	+0⅛	+0¼	12.06
Lloyds Bank 11⅝ 98 £	100	99½	95⅛	+0⅛	0	12.35
Montreal Tst.10⅛ 93 C$	100	†98¼	99⅛	0	-0⅛	11.05
Nat. Aus. Bk. 14⅛ 94A$	100	97⅝	98⅛	+0⅛	-0⅛	15.38
New Zealand 9½ 93 £	100	91⅝	91⅞	+0½	+0¼	12.54
O.E.K.B. 10⅛ 99 C$	150	99¼	100¼	0	+0¼	10.23
Privatbanken 7½ 94 LFr	500	†97¼	98⅛	0	0	8.11
Royal Bk.Scot.10⅝ 98 £	125	92⅛	93⅛	+0¼	+0⅛	12.01
Saskatchewan 9⅞ 91 C$	150	†98¼	98⅞	0	+0⅛	10.72
Saskatchewan 10⅛ 93 C$	200	99⅛	99⅛	0	+0⅝	10.40
State Bk.NSW. 13⅞ 93A$	100	94⅛	95¼	+0⅝	+0⅛	15.58
Sweden 7½ 93 Ecu	250	95	95½	+0⅛	-0½	8.94
Sweden 15 94 A$	100	100½	101¼	+0¼	-0¼	14.68
Toyota Mtr.Cr.11⅝ 92C$	150	101½	102	0	+0¼	10.50
World Bank 7⅛ 99 FL	300	96⅛	96⅞	0	+0¼	7.62
World Bank 13⅛ 92 A$	100	97⅛	98	+0⅛	+0⅛	14.40
World Bank 14¼ 94 A$	75	98⅛	98⅞	+0⅛	-0⅛	14.62
Zentrspk 13¼ 93 A$	75	†95	95½	+0¼	+0⅛	14.91

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic.Bld 94 £	.08	99.95	100.00	24/01	13.21
Bank of Greece 99 US	0⅛	99.73	99.84	8/03	9⅛
Belgium 91 US	0	100.20	100.30	21/02	8.81
Chelt.& Gloucester 94 £	.063	99.76	99.81	30/11	14.06
Credit Foncier 98 US	.063	99.95	100.03	20/04	8.31
Dresdner Finance 99 DM	.031	99.86	99.95	30/10	6.97
EEC 3 92 DM	0	100.00	100.10	22/02	6⅛
Halifax BS 94 £	.1	100.06	100.11	9/11	13.97
Invt. In Industry 94 £	0¼	99.94	100.04	24/11	14.06
Leeds Perm. B/S. 94 £	0⅛	100.15	100.20	15/01	15.37
Milk Mkt.Brd. 5 93 £	0⅛	99.87	99.92	29/12	14.94
New Zealand 5 97 £	.07	99.92	100.02	18/11	13.19
Northern Rock 92 £	0½	99.84	99.89	20/01	5¼
State Bk. Nsw. 98 US	.188	100.24	100.34	11/02	8.81
Woolwich Equit.BS. 93 £	0⅛	100.13	100.18	15/01	15.37
Woolwich 5 95 £	0½	99.91	99.96	21/11	14.06

Average price change... On day +0.00 on week -0.01

CONVERTIBLE BONDS	Cnv. date	Cnv price	Bid	Offer	Chg. day	Prem
Alcoa 6¼ 02 US	8/87	62	117¼	118¼	-1¼	3.81
Amer. Brands 7¼ 02 US	9/87	56.7	123⅛	124⅛	-1⅞	-1.96
CBS, Inc. 5 02 US	4/87	200.	103	104	0	3.50
Dai-Ichi Kan. 3⅞ 04 US	7/89	3486.	98⅞	99⅞	-0⅛	3.18
Primerica 5½ 02 US	4/87	66.75	73½	74½	-0½	74.85
Eng. China Clay 6½ 03 £	9/88	4.8	88¼	89¼	-0½	6.50
Fujitsu 3 99 US	5/84	1106.	218	219	+0⅝	-1.09
Ladbroke 5¼ 04 £	6/89	7.1	98¼	99¼	-0⅝	152.28
Land Secs. 6¾ 02 £	6/87	6.72	84⅛	85⅛	0	13.22
Minolta Camera 2¼ 94DM	2/86	1004.	107¼	109¼	+0¼	9.04
MCA Inc 5½ 02 US	9/87	68.62	102⅛	103⅛	-0¼	11.18
Mitsubishi Bk. 3½ 04US	5/89	3266.	92¼	93¼	+0¼	1.69
Next Plc 5¾ 03 £	11/87	4.3	96⅛	97⅛	0	338.49
Nikki Nippon Bk.2⅞ 03 US	4/88	804.	128⅛	129⅞	+1¼	1.58
Omnicom Inc. 6 1/2% 04 US	10/89	28.	101⅞	102⅞	-0⅛	17.58
Onoda Tateisi 2⅝ 02 US	4/87	1310.	295½	296½	-4	-0.47
Ranks Hovis 4¾ 03 £	†1/88	3.5	119½	120½	-1	-1.64
Redland 7¼ 02 £	1/87	5.4	93¼	96¼	-0½	4.16
Saatchi&Stchi 6¾ 03 £	†10/89	4.41	92	93	+0½	32.01
Silicon Graphics 8 04 US	6/89	23.18	117½	118½	+0¼	8.33
Sumitomo Bank 3¼ 04 US	2/89	3697.	82⅝	83⅝	+0¼	5.05
Texas Inst. 2⅞ 02 US	9/87	82.87	75½	76⅛	0	93.03
Utd.N'papers 8 04 £	10/89	8.77	107	108	-0¼	108.46
W.R. Grace 6¼ 02 US	9/87	42.12	92⅞	93⅞	-0¼	25.87

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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Scott's Hospitality Inc.

has sold its wholly-owned subsidiary

Commonwealth Hospitality Ltd.

which operates 38 hotel properties across Canada

to

Bass PLC

for

$285 Million

The undersigned acted as financial advisor to Scott's Hospitality Inc.

LANCASTER

Toronto

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INTERNATIONAL CAPITAL MARKETS

Good reception for EIB $150m Eurobond

By Katharine Campbell

DEFYING the vagaries of the dollar markets, the European Investment Bank yesterday successfully launched a $150m 10-year fixed rate Eurobond into a firm US Treasury bond market.

J.P. Morgan chose the fixed rate reoffering structure, setting a coupon of 8½ per cent, and an issue price of 99¾, to yield 50 basis points over equivalent treasuries. Fees for the syndicate total 35 basis points.

INTERNATIONAL BONDS

Priced in line with outstanding EIB paper, the deal met with a good reception, and the syndicate was "broken" after about an hour, allowing the bonds to trade freely, as the US Treasury bond market moved up slightly. Towards the end of the afternoon, the price remained at 99¾. The proceeds were swapped, though the lead manager did not disclose details.

Meanwhile, Paribas structured the first public Canadian dollar floating rate note for GMAC Canada, guaranteed by the US parent. It is a C$150m seven-year issue, callable at par after two years and every six months thereafter, and is priced at 100⅛. The coupon pays the monthly bankers acceptance rate.

An official at Paribas said that the deal would allow the borrower to earn some revenue by writing options on swaps against the call incorporated into the bond, a flexibility that would not be available with fixed-rate financing.

The paper will find a home substantially with European fund managers taking advantage of the steeply inverse yield curve in Canada. At yesterday's rates, bankers' acceptances were paying a monthly 12.3 per cent, which equates to 13.02 per cent on a bond with an annual coupon.

Canadian bankers were watching closely as to how the deal went, but said they doubted whether there would be much more demand for C$ denominated floating rate securities.

Meanwhile, the EIB took advantage of a calmer mood in the UK gilt-edged securities market – quieter after Tuesday's wild swings – to add a £85m tranche to a three-year-old £100m bulldog issue. The issue matures in 2001 and bears a 9 per cent coupon. The paper was placed by Warburgs, as sole underwriter, at a spread of 48 basis points over the equivalent gilt.

Domestic institutions are receptive to fungible bulldogs in the light of the increasing illiquidity of the gilts market itself on account of the UK government's continuing budget surplus.

Samuel Montagu's £100m five-year Eurosterling issue for Swedish Export Credit also went well, the lead manager said, although other houses reckoned the paper would only meet with selective demand, particularly given the current nervous disposition of sterling.

Priced at 101¾ and with a 12 per cent coupon, it was launched at 88 basis points over five-year gilts, and later in the afternoon was quoted by the lead manager at a discount of 1¼ per cent to the issue price, which is at full fees.

Today Credit Suisse are expected to launch a 10-year public issue for the World Bank in the Swiss market.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Fuji Heavy Industries(d)♦	300	8¾	101⅞	1999	2⅛/1¼	Daiwa Europe
Nippon Meat Packers♦	200	(3¾)	100	1993	2¼/1⅛	Yamaichi Int. (Europe)
European Inv. Bank(d)♦	150	8½	99¾	1999	35/15bp	J.P. Morgan Secs.
CANADIAN DOLLARS						
GMAC Canada(e)†♦	150	(e)	100⅛	1996	12½bp	Paribas Capital Markets
STERLING						
Swedish Export Credit♦	100	12	101⅞	1994	1⅞/1¼	Samuel Montagu
European Inv. Bank(f)♦	85	9	88.80	2001	n/a	S.G. Warburg Secs.
YEN						
Skopbank(d)♦	10bn	5¾	101⅞	1992	1⅞/⅞	IBJ International
SWISS FRANCS						
Hokkaido Takushoku Bk(a)★♦§	200	⅝	100	1994	1⅝	SBC
Hokkaido Takushoku Bk(a)§	200	⅝	100	1994	1⅝	SBC
Nippon Pillar Packing(b)★♦§	15	¾	100	1994	1⅝	Handelsbank NatWest
D-MARKS						
Mitsubishi Tst & Bank(c)♦	300	2¾	100	1995	2¼/1⅞	WestLB

★Private placement. §With equity warrants. $Convertible. †Floating rate notes. ♦Final terms. a) Yield to put 3.52%. b) Yield to put 3.437%. c) Yield to put 4.80%. Terms fixed as indicated. d) Non-callable. e) One-month Bankers Acceptance rate flat. Call at par from Nov. 1991 and every six months thereafter. (f) Fungible with £100m bond launched in 1986 from Nov.16.

Nomura enters sterling commercial paper market

By Stephen Fidler and Rachel Johnson

NOMURA INTERNATIONAL, the largest Japanese securities firm, has become the first Japanese dealer in the sterling commercial paper (SCP) market.

Nomura is one of three dealers on a £100m programme to raise funds for Associated British Ports Holdings, arranged by NatWest Capital Markets. Barclays de Zoete Wedd is the other dealer.

Nomura yesterday was keen to emphasise that its novel participation in the SCP market was nothing out of the ordinary, and stressed its strong interest in commercial paper in Europe market as a whole. The most active market is still the US.

However, its interest in the market has surprised some in view of its small size – £4bn according to the Bank of England at the end of August this year – and its limited profitability.

The programme is the second effort by Associated British Ports to get a sterling CP programme off the ground. It announced a programme late last year. But by the time it wanted to use it this summer, Kleinwort Benson, its leading dealer, had pulled out of the market. The original dealing group also comprised NatWest and BZW.

Provided market conditions are favourable, the company will start issuing paper in November with maturities of between one and three months.

According to Mr Peter Allen, the company's financial controller, the hope is that Nomura will mostly place the paper with Japanese companies in the UK with spare sterling cash balances.

The paper is typically purchased by corporate, or institutional investors wishing to make short-term sterling investments because it offers the opportunity of obtaining higher yields than are available on other instruments, such as Treasury Bills.

The market, however, fails to offer the depth or volume of government bonds or other CDs.

LTOM sets up pilot scheme to boost liquidity

By Jim McCallum

THE LONDON Traded Options Market announced yesterday that it will begin a two-year pilot scheme this morning which aims to boost liquidity in its less actively traded stock options.

The LTOM said the introduction of a designated primary market maker system will produce continuous firm prices, thereby ensuring that the price displayed on the stock exchange's floor screens is the price the market maker will be prepared to deal at.

Mr Tony de Guingand, LTOM director, said he believed the initiative would be welcomed by traders and investors. "Investors will be able to deal at the price quoted and in reasonably large sizes; and market practitioners should benefit from increased liquidity in some underperforming stock options."

The first designated primary market maker will be Hull Trading Europe and will make markets from this morning in Tesco, Unilever and P&O. From October 30, Reuter and Polly Peck will be added. The LTOM already operates a voluntary firm price system in six other stocks and will add to that another six stocks this morning.

Manufacturers Hanover raises funds for Brazil

By John Barham in Sao Paulo

MANUFACTURERS Hanover Trust is putting together a syndicate of foreign investors to inject $80m into Brazil's two busiest airports. Conversion of foreign debt into an equity participation is to be a component of the investment package.

The investment would be one of the largest yet co-ordinated by a foreign bank since the Latin debt crisis of 1982. Manufacturers Hanover says the package will not involve additional foreign loans.

Mr Gilberto Prado, president of Manufacturers Hanover's in Brazil, said: "We are negotiating a concept by which private investors and banks would invest the resources needed to expand the Rio de Janeiro and Sao Paulo airports." The money will be used to build a second passenger terminal at each of the airports, which are chronically congested.

Mr Prado said he approached Infraero, the state-owned airport operating company a year ago. The bank identified airports as a prime investment target because "they generate sufficient revenues to pay off the investments." He expects an agreement with Infraero in a few months.

Like most Brazilian state companies, Infraero's finances are overstretched, but they needed to invest to expand the country's infrastructure. The Government has not encouraged private investments in public services.

Japan in tax move on Mexico debt

By Stefan Wagstyl in Tokyo

THE JAPANESE Ministry of Finance said yesterday Japanese commercial banks would be given a tax incentive to participate in the international debt-relief plan for Mexico.

Under the scheme, creditor banks can swap loan claims at a 35 per cent discount for Mexican government bonds. The ministry will allow banks to claim the losses suffered from this write-down against tax. Banks will also be permitted to write off against tax losses subsequently suffered if the bonds fall in value below their initial quotation price.

The ministry is expected to provide similar incentives to banks which participate in future schemes.

Focus moves to government bail-out of thrift industry

By Karen Zagor in New York and Rachel Johnson in London

IN THE absence of any significant economic data, the debt market concentrated on the auction yesterday of $4.5bn in 30-year Refco bonds, the first step in the Government's financing for the bail-out of the thrift industry.

Bidding was expected to be light for the US government-backed Refco bonds, which will likely yield some 28 basis points more than comparable Treasury long bonds. The auction results were due to be released in the late afternoon.

GOVERNMENT BONDS

Treasuries held up through early afternoon trading, although the subdued tone of the stock market put the brakes on the flight to quality bond issues which had supported Tuesday's debt market.

In mid-session trading, the Treasury's benchmark 30-year bond was up ⅜ point at 103, yielding 7.86 per cent. At the short end of the yield curve, the three-year issue was up ⅛ point at 100⅛, yielding 7.79 per cent.

The Federal Reserve refrained from open market intervention yesterday and Fed Funds, the rate at which banks lend to each other, changed hands at 8⅞ per cent through the early afternoon. The target range for the funds is thought to be around 8¾ per cent.

■ THE BEST indicator of the UK Government bond market was the December future on Liffe which closed a bit firmer at 93.20, reflecting the overall improvement in the tone of the gilts market.

The improvements in gilts were made on the back of sterling's rise against the D-Mark and the continuing uncertainty in the global equity markets.

The trade figures this week, although in line with market expectations, "have also been favourable to the bond market," one trader said.

Trading in both futures and cash was modest, with the best gains being made at the long end. Investors still keen to reshuffle their portfolios and switch equities for gilts chose long-dated stocks.

The long gilt opened at 94.25, and closed at 95.10, showing the market had recovered from the blow it suffered after the Mansion House speech by Mr Nigel Lawson, the Chancellor of the Exchequer.

■ IN GERMANY, prices of government bonds opened a touch better, and then were fixed up to 30 pfennigs higher amid continuing worries about the US stock market. A smaller increase in money supply data than expected gave a boost. M3 growth was slower at 4.6 per cent compared with expectations of 5.2 to 5.4 per cent. Futures went up by about 10 ticks.

The day was not further improved by the allocation by the Bundesbank of DM3.6bn in a repurchasing agreement which injected only DM200,000m into the market. The 7 per cent October 1999 bond closed at 99.98, after its fixing at 100.05.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	105-04	+6/32	11.37	11.53	11.17
	9.750	1/98	98-01	+6/32	10.48	10.61	10.37
	9.000	10/08	95-11	+15/32	9.53	9.61	9.44
US TREASURY *	8.000	8/99	101-02	+9/32	7.84	7.98	8.27
	8.125	8/19	103-00	+10/32	7.86	8.01	8.23
JAPAN No 111	4.600	6/98	95.8098	-0.112	5.36	5.32	5.17
No 2	5.700	3/07	104.2827	-0.181	5.23	5.23	5.08
GERMANY	6.750	6/99	98.1500	+0.150	7.01	7.01	6.91
FRANCE BTAN	8.000	7/94	95.3188	+0.073	9.24	9.15	8.84
OAT	8.125	5/99	95.7400	+0.040	8.76	8.81	8.86
CANADA *	9.500	10/98	100.6250	-0.100	9.41	9.52	9.71
NETHERLANDS	7.250	7/99	98.8500	+0.160	7.41	7.46	7.21
AUSTRALIA	12.000	7/99	90.9624	+0.739	13.70	13.61	13.48

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal.

Technical Data/ATLAS Price Sources

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wednesday October 25 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1989 to date	Tue Oct 24 Index No.	Mon Oct 23 Index No.	Fri Oct 20 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (208)	864.48	+0.4	12.77	4.48	9.59	27.82	862.96	881.87	879.35	819.66
2	Building Materials (29)	1021.87	+0.1	15.32	5.43	8.16	35.70	1020.41	1034.56	1037.06	1029.54
3	Contracting, Construction (37)	1371.61	-0.2	17.80	5.61	7.33	51.75	1374.37	1402.69	1404.87	1599.65
4	Electricals (10)	2504.64	+1.3	11.02	4.96	11.41	68.98	2472.35	2579.91	2522.88	2342.36
5	Electronics (30)	1915.22	+2.3	9.41	3.84	13.41	49.22	1872.80	1951.62	1947.87	1776.38
6	Mechanical Engineering (54)	468.76	+0.2	11.94	4.88	10.39	14.38	467.79	475.87	474.53	438.77
8	Metals and Metal Forming (6)	448.49	+0.2	22.92	6.67	4.81	15.15	447.79	452.81	452.34	493.85
9	Motors (18)	355.43	+0.9	11.17	4.87	10.58	9.97	352.37	355.35	351.54	288.32
10	Other Industrial Materials (24)	1615.76	+0.1	10.22	4.63	11.55	51.93	1614.81	1643.04	1638.75	1346.25
21	CONSUMER GROUP (184)	1222.58	+0.6	8.96	3.58	14.03	26.91	1221.42	1240.80	1232.55	1094.86
22	Brewers and Distillers (23)	[illegible]	+0.8	9.35	3.58	13.48	38.11	[illegible]	[illegible]	[illegible]	[illegible]
25	Food Manufacturing (20)	1098.45	+0.3	9.37	3.92	13.48	25.28	1087.38	1105.32	1099.23	989.42
26	Food Retailing (14)	2351.65	+1.1	8.89	2.98	14.87	43.08	2327.01	2340.87	2288.52	1924.42
27	Health and Household (14)	2357.12	+0.5	6.63	2.83	17.97	39.12	2345.88	2383.41	2371.88	1928.85
29	Leisure (34)	1540.44	+0.2	8.47	3.73	14.55	37.26	1538.09	1568.74	1564.58	1404.41
31	Packaging & Paper (15)	531.80	+0.9	11.25	4.89	11.08	16.17	526.96	533.55	533.53	568.31
32	Publishing & Printing (18)	3468.88	+0.5	9.19	4.92	13.98	105.93	3451.96	3483.34	3478.72	3464.35
34	Stores (32)	767.88	+0.6	11.15	4.78	11.71	18.59	763.03	775.61	778.57	769.21
35	Textiles (14)	518.26	+1.1	11.03	3.67	10.99	15.74	512.83	514.34	507.52	523.58
40	OTHER GROUPS (93)	1188.26	+0.6	10.59	4.63	11.44	27.47	1182.09	1120.99	1116.99	917.28
41	Agencies (17)	1482.68	+1.0	7.12	2.44	17.38	25.00	1468.48	1495.39	1500.10	1087.29
42	Chemicals (22)	1209.95	+1.1	12.40	3.17	9.58	43.00	1196.56	1209.31	1205.31	1068.24
43	Conglomerates (13)	1578.03	+0.1	10.83	5.44	10.87	36.04	1576.34	1600.75	1598.43	1257.66
45	Transport (13)	2126.58	+0.6	10.50	4.41	12.17	56.50	2113.75	2147.12	2161.06	1948.68
47	Telephone Networks (2)	1091.04	+1.2	11.11	4.53	11.73	22.38	1077.70	1098.18	1090.06	981.72
48	Miscellaneous (26)	1797.87	-0.5	9.68	4.58	11.66	44.74	1806.21	1837.75	1835.17	1268.38
49	INDUSTRIAL GROUP (485)	1115.58	+0.6	10.39	4.21	11.87	28.09	1109.02	1128.39	1123.30	988.38
51	Oil & Gas (15)	2123.92	+0.2	10.20	5.34	12.96	87.50	2118.64	2166.72	2160.56	1736.97
59	500 SHARE INDEX (500)	1200.40	+0.5	10.36	4.37	12.01	32.85	1193.91	1215.62	1210.42	1052.20
61	FINANCIAL GROUP (121)	742.93	+0.5	–	5.62	–	28.17	738.95	748.93	746.31	695.84
62	Banks (9)	727.76	+0.2	23.71	6.87	5.55	35.17	726.62	744.46	744.20	676.32
65	Insurance (Life) (8)	1240.24	+0.5	–	5.11	–	47.56	1234.54	1232.85	1222.55	990.39
66	Insurance (Composite) (7)	642.55	+1.1	–	3.88	–	28.34	635.85	644.28	637.81	533.93
67	Insurance (Brokers) (7)	1052.37	+1.5	7.16	5.97	18.58	45.26	1036.99	1029.51	1014.10	962.22
68	Merchant Banks (11)	384.31	-0.1	–	4.40	–	9.70	384.63	389.79	392.12	348.64
69	Property (49)	1165.95	+1.0	7.70	3.50	16.46	21.42	1154.80	1165.40	1162.97	1228.04
70	Other Financial (30)	323.24	......	12.28	6.82	10.61	13.25	323.07	326.88	326.86	375.88
71	Investment Trusts (68)	1177.91	+0.4	–	2.95	–	20.26	1172.66	1179.61	1175.39	935.14
81	Mining Finance (1)	635.14	-1.6	11.77	4.24	9.55	22.25	645.41	663.37	668.80	554.94
91	Overseas Traders (8)	1334.92	+1.7	10.27	6.00	11.17	48.84	1312.29	1303.19	1282.21	1363.15
99	ALL-SHARE INDEX (698)	1089.74	+0.5	–	4.53	–	31.38	1084.01	1102.34	1097.64	963.02

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Oct 24	Oct 23	Oct 20	Oct 19	Oct 18	Year ago
FT-SE 100 SHARE INDEX♦	2161.9	+12.6	2162.7	2148.7	2149.3	2189.7	2179.1	2189.3	2178.1	1858.7

FIXED INTEREST

	PRICE INDICES	Wed Oct 25	Day's change %	Tue Oct 24	xd adj. today	xd adj. 1989 to date
	British Government					
1	Up to 5 years	117.20	+0.19	116.98	–	10.00
2	5-15 years	131.19	+0.38	130.70	–	11.60
3	Over 15 years	141.64	+0.52	140.90	–	12.00
4	Irredeemables	159.59	+1.06	162.45	4.59	13.42
5	All stocks	129.25	+0.34	128.84	0.04	11.28
	Index-Linked					
6	Up to 5 years	139.04	+1.22	137.37	–	2.79
7	Over 5 years	137.48	+1.13	135.95	–	3.21
8	All stocks	137.48	+1.14	135.94	–	3.15
9	Debentures & Loans	109.40	+0.52	108.84	–	9.10
10	Preference	87.38	+0.03	87.35	–	3.05

	AVERAGE GROSS REDEMPTION YIELDS		Wed Oct 25	Tue Oct 24	Year ago (approx.)
	British Government				
1	Low Coupons	5 years●	9.79	9.94	9.66
2		15 years●	9.51	9.53	9.24
3		25 years●	9.40	9.44	8.94
4	Medium Coupons	5 years	10.85	10.90	10.06
5		15 years	9.85	9.92	9.47
6		25 years	9.50	9.58	9.17
7	High Coupons	5 years	10.96	11.03	10.19
8		15 years	10.06	10.14	9.68
9		25 years	9.65	9.74	9.24
10	Irredeemables	†	9.48	9.58	8.90
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.61	3.99	2.80
12	Inflation rate 5%	Over 5 yrs.	3.64	3.72	3.63
13	Inflation rate 10%	5 yrs.	2.74	3.12	1.64
14	Inflation rate 10%	Over 5 yrs.	3.47	3.54	3.46
15	Debs & Loans	5 years	13.52	13.58	11.76
16		15 years	12.09	12.20	11.03
17		25 years	11.61	11.68	10.70
18	Preference	†	10.57	10.57	9.97

♦Opening index 2153.5; 10 am 2155.2; 11 am 2159.3; Noon 2156.6; 1 pm 2149.5; 2 pm 2149.7; 3 pm 2152.3; 3.30 pm 2151.7; 4 pm 2155.4 (a) 4.53pm (b) 2.41pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p. ● LOW COUPON GILT YIELD RESULTS: 20/10/89- 5yrs 10.01, 15yrs 9.60, 25yrs 9.49, 23/10/89- 5yrs 10.02, 15yrs 9.59, 25yrs 9.48, 24/10/89- 5yrs 9.94, 15yrs 9.53, 25yrs 9.44. FTA ALL SHARE INDEX: Share capital changes for the constituents can be found daily on Topic page no. 10243. NAME CHANGE: Dewhirst (I.J.) (Holdings) is now Dewhirst Group (35).

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	95	2	6
Corporations, Dominion and Foreign Bonds	12	0	30
Industrials	401	402	793
Financial and Properties	212	120	344
Oils	26	36	33
Plantations	2	1	8
Mines	27	59	85
Others	31	123	98
Totals	806	743	1,397

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. § Offered to holders of ordinary shares as a "rights". † Introduction. §Placing price. ‡‡ Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♣ Unlisted securities market. ♠ Official London listing. □ Including warrants entitlement. * Third Market. ‡ Price at suspension.

TRADITIONAL OPTIONS

● First Dealings Oct 23
● Last Dealings Nov 3
● Last Declarations Jan 25
● For settlement Feb 55

For rate indications see end of London Share Service

Calls in Storehouse, Business Tec, Mt Charlotte, Eurodisney, Astra Hldgs, Conrad, Kwik-Fit, Next, RMC, FKI Babcock.

LONDON TRADED OPTIONS

THE LONDON Traded Options Market had a busy session, due mainly to the expiry yesterday of October stock options. The FT-SE 100 index option was again modestly traded, as the stock market remained quiet after the recent fluctuations.

Total turnover on the LTOM yesterday was 46,731 lots, of which 24,480 were calls and 22,257 were puts. This compared with 36,227 on Tuesday and a recent average of around 35,000.

Stocks due for expiry were heavily traded. Dealers said the UK September trade figures and nervousness on Wall Street had prevented many October stock option holders from executing trades on Tuesday. The result was a build-up of technical trades, such as position closing and rolling over of positions, waiting to be executed yesterday.

In particular, a large block of BP stock options were due for expiry. This was reflected in the turnover figures, which showed that 4,855 BP options changed hands. These trades were divided between 3,211 calls and 1,644 puts. The busiest series was the January 300 call, which traded 1,003 contracts.

Jaguar was actively traded, due partly to the expiry of October contracts, but also following the announcement on Tuesday by Ford that it had increased its stake in Jaguar to just under 12 per cent. Jaguar was traded actively on the stock market and some options dealers said there was talk that Ford had again raised its stake. Jaguar turned over 2,093 option contracts, of which 1,814 were calls and 279 were puts.

Trading in the FT-SE option index was overshadowed by the stock options. The FT-SE turned over 12,816 contracts, compared with 13,958 on Tuesday. This was divided between 4,675 calls and 8,141 puts.

The stock and options markets were boosted yesterday by a shortage of stock. Shares then dropped at midday on talk that a sell programme was about to be executed. However, Wall Street remained firm and, with the FT-SE December future trading at a premium, the underlying market closed up 12 points. But the stock market's firmness did lead to an increase in turnover in FT-SE options dealing.

[illegible]

UK COMPANY NEWS

Impressive results for second year running send shares up 17p

Henry Barrett doubles to £10.2m

By Andrew Bolger

HENRY BARRETT Group, the steel and industrial products group, more than doubled pre-tax profits in the year to August 31, its second full year since flotation in 1987.

Profits rose to £10.15m, against £4.42m in 1987-88, with turnover increased by 71 per cent to £97.14m. Earnings per share rose 60 per cent to 20.92p (13.1p) fully diluted.

Four acquisitions were made during the year at a total cost of £21.6m. They were financed by two vendor placings, leaving gearing at 7.3 per cent.

Mr Guy Barrett, chairman, said that in the steel buildings division, orders and output were at record levels and margins had been improved by increased productivity. An investment in the group's Bradford plant had been completed last month and would increase output by 40 per cent.

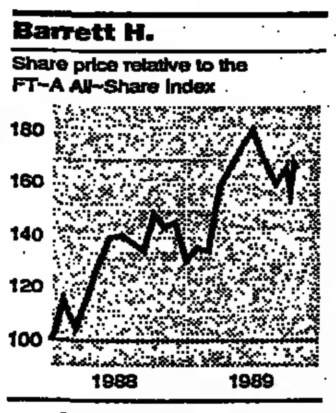
The current downturn in the retail market had been anticipated by shifting more towards business parks and distribution warehouses, rather than non-food retail outlets.

In specialist tubular structures, Westbury made its first full-year contribution since joining the group. The market was extremely buoyant and its order book was full for the next six months. An extension to its factory near Wetherby, Yorkshire, which would double capacity was due to be finished by next February.

Sales of the Lindapter range of industrial fixing systems have also grown rapidly at home and abroad. A US joint venture was formed in Boston in July and distributors have been appointed in the Middle East, Italy and Japan.

Barrett said that while the growth in steel consumption had slowed down, its steel stockholding operations were expected to have another successful year by concentrating on the higher margin, value-added end of the business.

A final dividend of 3.45p is recommended, making 5.1p (3.4p) for the year.



● COMMENT

Doubling profits for the second successive year while raising earnings by 60 per cent is no mean trick and the market was suitably impressed, with the shares closing up 17p at 265p. The obvious question is whether this is just a top-of-the-cycle success story. If there is anything less fashionable than steel in the City at the moment it might be providing steel buildings for out-of-town DIY retailers and superstores. But Barrett argues that it has moved away from the exposed retail end of the buildings market, and its high margins in steel stockholding will shelter it from any coming storm. Certainly, the company is very relaxed about the forecast by house broker Panmure Gordon, which has upped its profits figure for the current year to £16.5m, with earnings of 28.9p, for a prospective multiple of 9. Barrett still seems a bright hope in what is currently a very gloomy sector of the market.

Buzz subsides at cautious Regina

By Graham Deller

REGINA HEALTH & Beauty Products, the USM-quoted group which markets Royal Jelly, failed to create a buzz yesterday in announcing pre-tax profits of £754,000 for the year to end-June.

The company described the results as "lower than expected."

The downturn in the economy in Regina's final quarter led many high street retailers to reduce stock levels and this will adversely affect results for the first half of the current year.

Action was being taken to cut costs and find new distribution channels, the company stated.

The outcome – a rise of just 5 per cent on the previous year's £718,000 – was achieved on turnover ahead 71 per cent at £5.85m (£3.42m).

Regina is taking steps to combat competition, which has increased substantially over the past six months, with heavy investment in advertising, public relations and medical research.

Its original products – a range made up of the staple diet of the queen bee, which the company claims have rejuvenating powers as well as helping to combat a wide span of ailments – have since been augmented by a skincare range and a Royal Jelly selection called Animal Magic aimed at owners of domestic animals, such as cats, dogs and horses.

Earnings dipped to 2.31p (2.54p) per 2p share, but the single dividend for the year is maintained at 0.5p.

Regina shares, one of the hardest-hit securities in the recent stock market shake-out, yesterday eased ½p to 33p.

Storehouse selling credit card business to Yorkshire Bank

By Maggie Urry

STOREHOUSE, the BhS, Habitat, Mothercare and Richards retail group, is selling its Storecard credit card business to Yorkshire Bank.

The card, held by 400,000 Storehouse customers and accounting for 8 per cent of the group's turnover, will continue to operate in the same way and Storehouse will be able to use the customer list for marketing purposes.

Storehouse said the move was a further example of its determination to concentrate on retailing and to contract out work best done by specialists. Storecard had borrowings of £40m but these were not on Storehouse's balance sheet.

The card was launched in 1986 as a joint venture with Citibank. In March last year Storehouse bought out Citibank's half share for £2.2m. It now expects to receive £2.8m for the whole business, £500,000 above net asset value at the time of completion, due at the end of February.

Storehouse said the sale would increase current year pre-tax profits by about £6m, as losses from the card operation and disposal costs would be taken as an extraordinary debit. Thereafter the annual benefit to profits would be around £4.5m, after paying a merchanting fee, likely to run at £1m a year, to the Yorkshire Bank, and marketing costs.

Yorkshire Bank also runs credit card businesses for other retailers, notable MFI and Argos.

UK fund plans to invest $60m in Chile

By Alison Maitland

THE FIRST London-listed fund to invest in Chile was launched yesterday by Genesis Fund Managers.

Genesis Chile Fund, a closed-end investment company registered in Guernsey, is expected to raise $60m (£37.76m) for long-term investment in Chilean equities.

Some $45m of this has been pre-placed with institutions from the UK, the US, Australia and continental Europe, notably Switzerland and France.

The Genesis fund follows hard on the heels of the $70m New York-listed Chile Fund, launched by Salomon Brothers on September 26, and reflects growing interest in Chile's economic prosperity and emerging stock market.

The stock market has performed poorly since May because of uncertainty about the outcome of the first free congressional and presidential elections since the Pinochet coup in 1973, and this could continue for some months after the December poll, said Mr Richard Carss, managing director of Genesis Investment Management.

"While uncertainty persists, the market won't go very far in any direction and that ought to give us the opportunity to get substantially invested over the first half of next year," he said.

Shares in the fund are priced at $10.15 apiece and the London listing is expected to be approved on November 3, with dealings starting on November 6.

The fund's capital must remain in Chile for a minimum of five years, but capital gains and dividends can be repatriated.

These will be subject to a 10 per cent tax if remitted, which compares favourably with a standard rate of withholding tax of up to 35 per cent.

The Chile-based investment manager is Intergenesis, a joint venture between Genesis and La Interamericana, a subsidiary of American International Group, one of the world's leading insurance groups.

The fund has permission to issue further tranches taking it to a total of $100m.

Wescol for USM with £10.2m tag

By Clare Pearson

WESCOL GROUP, a Halifax-based structural engineer, is joining the Unlisted Securities Market with a market value of £10.2m.

The placing is of 2.25m shares, representing 21.4 per cent of the enlarged equity. Priced at 97p each they will raise, after expenses, about £1.97m in new money for the company.

There is no profits forecast, although Wescol is forecasting a net dividend of 4.5p, to give a prospective gross yield of 6.2 for the year to end-July.

BWD Rensburg, sponsors to the issue, expect the company to make slightly in excess of £2m at the pre-tax level this year.

The historic p/e at the placing price is 8.6. Wescol made £1.47m on sales of £19.37m (£13.61m) in the year to end-July 1989.

Last year, constructional steelwork accounted for more than 70 per cent of turnover. In addition, the company is involved in roofing and cladding, the manufacture of castellated beams and steel stockholding.

Wescol emerged in April 1987 as a management buy-out, financed by 3i, the venture capital concern, which valued the company at £3.2m. Directors will hold 48.8 per cent of the issued shares after the placing.

Com-Tek to raise £0.55m

By Clay Harris

COM-TEK RESOURCES, a Denver-based oil and gas company, is raising £550,000 through a share placing in London at 10p. Of the proceeds, $593,000 (£368,000) will be used to fund the acquisition and development of interests in North America.

The placing will increase the proportion of Com-Tek shares held by UK investors from 20 per cent to 35 per cent. The shares are also traded on the Nasdaq market in the US.

Since their introduction to the USM through a placing at 16¼p a year ago, Com-Tek shares have lost a third of their value. They closed 1p lower yesterday at 11p.

Mr Gary Dillabaugh, Com-Tek's vice president and treasurer, said the money was being raised in London because TC Coombs, the UK firm which has taken over as the company's sponsoring broker on the USM, had signalled a desire to place the shares.

Moreover, Com-Tek was exploring possible purchases of UK-owned oil and gas interests throughout the world, he said.

Its immediate spending plans include $196,000 for a 12 per cent stake in the Leavenworth Oil & Gas Properties and related pipeline in Kansas, $75,000 for a 1 per cent share in the McGregor Lake gas plant in Alberta, and $320,000 for development of those two projects and the North Lea oil field in New Mexico, in which Com-Tak has a 94 per cent interest.

The gas property would contribute to a positive cash flow, Com-Tek said, and would provide some insulation against unfavourable movements in oil prices.

In the year to September 30 1988, Com-Tek reported a pre-tax loss of $512,000 on revenue of $378,000.

Jacob shows recovery as profits top I£1m mark

W&R JACOB, the Irish-based biscuit manufacturer and distributor of food products, yesterday announced a recovery in first-half profits with a pre-tax figure of I£1.14m (£1.02m).

This compared with I£830,000 for the corresponding period of the previous year.

Turnover in the 28 weeks to July 14 increased to I£29.78m (I£26.29m).

The directors said that a further increase in sales was expected in the second half. The outcome for the year should leave the group well placed to continue its recent progress and improvement in profits.

Trading profits were I£1.29m (I£868,000), while interest payable rose sharply to I£150,000 (I£38,000).

Tax took I£155,000 (I£110,000) leaving earnings per share of 8.7p (6.5p).

The interim dividend is raised from 2.8p to 3p.

13.9% take up BSS offer

By Andrew Hill

ONLY 13.9 per cent of BSS Group's £7.4m offer of new shares was taken up by existing shareholders, the distribution company announced yesterday.

BSS launched the offer at the end of September partly to fund the £12.1m acquisition of J&B Labone, a distributor of domestic heating equipment, from Parkfield Group.

The issue had already been placed provisionally with institutional investors, who took up the balance of shares on offer.

"We're naturally disappointed but it's not surprising in view of the market conditions," said Mr Alan Milne, BSS's finance director, yesterday.

The offer was made at 425p per share, against a market price at the time of 453p. Since then BSS shares have slipped in the general market uncertainty, yesterday closing at 415p, up 5p.

Trafalgar House expands plastics side with US buy

By Ray Bashford

TRAFALGAR HOUSE, the construction, property, shipping and hotels group, is paying $20m (£12.44m) for Beringer Company, a Massachusetts-based supplier of equipment to the plastics processing industry.

Beringer will be merged with the US plastics operations of John Brown, the Trafalgar House subsidiary which also operates in engineering and construction and power engineering.

John Brown's international network will be used to increase Beringer's distribution capacity while efforts are made to extend the US group's product range through the use of additional resources from the new parent.

Beringer's range of auxiliary equipment for the plastics processing industry includes a range of filtration products.

The company is also a leader in water ring pelletising systems, used with plastics extruding equipment to produce pellets.

Trafalgar House declined to provide any financial information about Beringer on the the grounds that it could weaken the US company's competitive position.

Barbican shows improvement to £901,000

Barbican Holdings, the Third Market-quoted industrial holding company, continued the recovery seen at the interim stage with pre-tax profits of £901,000 for the year to June 30 against a loss of £1.55m.

The previous figure was restated following the acquisition in July of Paralodge and Britannia Trailer Hire.

Mr Alan Milton, chairman, said the results marked a "milestone" in the company's recovery. All divisions were trading profitably and the balance sheet was in excellent shape to take advantage of future opportunities, he said.

The acquisition of Paralodge had enabled Barbican to take charge of the management of, and maximise the income from the property portfolio.

The lubricating business in Cyprus was making steady progress and sales had started into Turkey. Mr Milton added that Barbican was pursuing a number of potential property projects which were leisure orientated with a view to developing leisure related earnings. The industrial activities had potential for above average growth in the medium term.

Turnover was £2.37m (£1.03m) and operating profits £1.26m (£1.25m loss). Earnings were 0.05p (0.2p loss). There was an extraordinary £180,000 (£49,000) credit.

Swanyard Studios records 73% rise

Swanyard Studios, the Third Market-listed operator of recording studios, lifted pre-tax profits by 73 per cent to £204,249 in the first half of 1989. Turnover advanced 39 per cent – from £298,897 to £416,947.

After tax of £53,735 (£6,859), earnings slipped to 0.05p (0.078p), though the company stressed that the earnings figure was affected by the increased number of shares arising from the rights issue in January. This raised money principally for the purchase of premises in New York.

There is no interim dividend.

Shiloh static at £0.51m

THE SIX months to September 30 1989 saw a modest profits rebound at Shiloh compared with the fall in profits for the year to March 25.

This textile spinner and disposable products and protective clothing manufacturer, made £510,287 pre-tax; compared with £508,224 previously.

In the 12 months, profits fell from £1.45m to £1.24m due to difficulties on the spinning side.

The directors said that prospects for the second half were still uncertain, but indications were that the company would have a better year than first expected.

There were signs of a small improvement in spinning activity since the end of the holiday season, but margins remained under pressure.

Annual profits would be boosted significantly if either of the two land sales were completed by the year-end.

The interim dividend is maintained at 0.875p on earnings per share of 5.86p, against 5.84p.

Interest eliminates loss at Monarch

By Kenneth Gooding, Mining Correspondent

A SHARP JUMP in interest received gave Monarch Resources, the London-quoted gold exploration company operating in Venezuela, a maiden taxable profit in the six months to June 30.

Interest of $1.08m eliminated an operating loss of $702,000 to produce a pre-tax profit of $281,000 (£175,000). In the period last year, interest received was $336,000, the operating loss was $538,000 and the taxable loss $717,000.

Turnover was $575,000 ($396,000) and the net profit per share was 2 cents (8 cents loss).

Monarch has raised £24.5m in two tranches since it was floated in London in July 1987. Cash balances at June 30 were down to $19.3m (from $35.9m in June last year and $28.6m at the end of December).

Mr Andrew Nelson, finance director, said they had fallen by another $3m since June. However, most of the planned capital expenditure had been completed and Monarch had adequate cash to carry out its exploration programme at the current rate.

Mr Robert Kendrick, the new chief executive, said the first gold had been poured at Monarch's project to recover metal from waste dumps at Mocupia Gorge. The project, for which Monarch provides all the financing in return for a 49 per cent share of profits, is expected to cost $10.4m, 30 per cent more than the original estimate.

The predicted operating cost has increased from $210 per troy ounce to $275 for the production of 690 kg of gold a year. Mr Kendrick said there was a possibility that throughput and ore grades might be increased to maximise the plant and cut costs. Cash flow at the Mocupia project would be positive next year.

Since June 30, Global Resources, said to be a vehicle for UK and Continental investors whose funds are controlled and managed in Switzerland, sold its 23.3 per cent stake in Monarch at 650p per share, compared with the flotation price of 295p and yesterday's market quotation of 513p.

About 15 per cent was split between five substantial UK institutions. The rest went to the family trust of Mr Adrian Nash, deputy chairman, which now has 12.16 per cent.

Monarch earned gross bonuses of $280,000 in the half year from a technical assistance contract at the Colombia mine which ends this month. Tonnages did not increase at the expected rate, however, and Mr Nelson said bonuses would reach about $550,000 this year compared with the hoped-for $2.4m and last year's $300,000 figure.

PSA contracts help Plastiseal to £0.53m

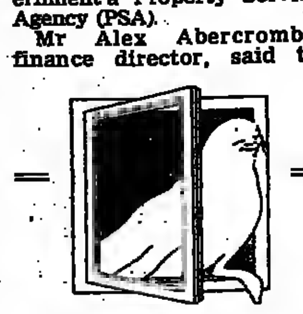
By Peter Franklin

IN ITS first set of results since joining the USM in June, Plastiseal, the Coventry-based manufacturer and installer of windows and doors, reported interim pre-tax profits of £526,000.

The figure, for the six months to July 31, represented a 21 per cent advance on last year's £436,000 and was achieved on turnover up 76 per cent from £4.35m to £7.66m. At the year to January 31, pre-tax topped the £1m mark and turnover was £9.84m.

The company makes windows and doors, mainly from uPVC, and the bulk of its business is concerned with the repair and maintenance market through contracts with local authorities and the Government's Property Services Agency (PSA).

Mr Alex Abercrombie, finance director, said the



domestic housing market had suffered a 35 per cent downturn this year. But Plastiseal depends on this sector for less than 10 per cent of its business and by expanding its niche areas it had been more than able to offset any shortfall.

In February the company increased its capacity with the acquisition of Glangary Windows, a Cardigan-based company. In addition to uPVC windows, Glangary makes aluminium windows and architectural aluminium for PSA clients, local authorities and commercial contractors.

Mr Howard Manttan, joint managing director, said that having British Standard 5750 approval had been a major influence in the group's success by enabling it to tender for PSA and local authority contracts.

Plastiseal has recently concluded an agreement with the PSA under its sixth tender programme to be a selected supplier of uPVC windows through to January 1994.

Mr Abercrombie said the company had identified a need to gain a foothold in Scotland to service potential customers there more effectively.

A representative has been appointed there, and with a 30 per cent increase in capacity resulting from the opening of a new factory in Coventry, the group was now well placed for further expansion.

After tax of £195,000 (£163,000), earnings per 6p share came out at 4.5p (3.8p). As indicated in the prospectus the directors are not paying an interim dividend but they said that the final dividend would reflect the period from the date of flotation.

FT

FINANCIAL TIMES CONFERENCES

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Shangri-La Hotel, Singapore
12 & 13 February 1990

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- Forging Closer Air Transport Links
- Improving the Regional Infrastructure; Air Navigation and Air Traffic Control Facilities
- Will Computer Reservation Systems Help or Hinder the Overall Pattern of Growth?
- Aircraft Financing and Leasing
- Meeting the Needs of the Regional Airlines
- Meeting the Demand for Aviation Skills in the Air and on the Ground
- How the New Generation of Long-Range Subsonic Airliners Will Facilitate Growth in the Region and its Links with the Rest of the World

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Mr Peter Sutch Cathay Pacific Airways
Mr Frederick Bradley Citibank, NA
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Tan Sri Dato Abdul Aziz Abdul Rahman Malaysian Airlines System Bhd
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FT A FINANCIAL TIMES INTERNATIONAL CONFERENCE

UK COMPANY NEWS

Tiphook and Stena rail at assets sale without shareholder approval

SeaCon bidders threaten to pull out

By Andrew Hill

TIPHOOK, the UK container rental group, and Stena, the Swedish shipping company, yesterday threatened to withdraw their $1.02bn (£634m) hostile bid for Sea Containers if the ferry group did not seek shareholder approval before *selling some of its assets*.

In a strongly worded letter to Sea Containers' board, the predators said that selling assets without prior shareholder approval would have "grave and irreparable consequences for your shareholders", and would "*blatantly* disregard the repeated promises made by your [president] Mr [James] Sherwood".

Sea Containers aims to announce details of a long-awaited restructuring plan next Tuesday. It will involve selling assets and distributing a cash *dividend to stockholders* in an attempt to fight off the cash bid.

Mr Sherwood angered the Anglo-Swedish predators with *his comments* earlier this week which indicated that Sea Containers would not hold a shareholder meeting until "most of the programme of asset disposals" was complete.

Tiphook and Stena have a multiple interest in Sea Containers' *rescue plan. They are* predators; potential buyers of some of Sea Containers' ferry and container assets, which include Sealink British Ferries; and shareholders. Stena controls about 5.8 per cent of the target.

Mr Sherwood refused to comment yesterday, but the bidders hope investor pressure may force him to put the alternatives to stockholders before acting.

The Tiphook/Stena letter said selling assets without prior approval would be a flagrant violation of the Sea Containers board's duties to stockholders. It called on the board to confirm that it "would not enter into any unconditional *asset sale agreements*, lock-ups or bust-up fee arrangements", and would submit the plans to stockholders.

There appears to be no strict legal requirement for Sea Containers to put its alternatives to shareholders, either in the US or in Bermuda, where Sea Containers and the bid vehicle are registered. But many shareholders have been expecting to vote on Mr Sherwood's plans.

On August 18, in a letter to shareholders, Mr Sherwood said: "Details of the recapitalisation plan *will be* announced in sufficient time for shareholders to make an informed decision."

Sea Containers shares slipped to below $60 in New York yesterday, against a bid price of $63. Mr Sherwood has indicated that the rescue plan could be worth between $70 and $100 a share to investors.

LWT to put revised finance plan to the vote

By Nikki Tait

LWT (Holdings) yesterday published formal proposals for its controversial capital restructuring and the introduction of new management incentives.

The weekend television contractor's scheme requires a 75 per cent vote in favour, and the extraordinary general meeting has been set for November 17 – the same date as the company's agm.

The detailed document elab*orates on the revised proposals* set out by LWT earlier this month. Under the scheme, LWT proposes to make a substantial cash payment to shareholders, replacing its current cash balance by substantial debt facilities to fund this.

The result would be a two thirds reduction in the group's equity *base resulting* in a much more highly geared company.

At the same time, 44 senior members of the group's management – the names are set out in the document – get a chance to subscribe for *unlisted management shares* in LWT, either by putting up cash or rolling over their *existing share options*. According to the document, the subscription price has now been set at 88.2p.

These management shares will convert into ordinary shares in about four years time. The number of shares into which they convert will depend on share price performance of the company over the period. If the price averages 144p or less shortly *before the conversion period* there is a one-for-one conversion rate. If it tops 327p management get 4.048 ordinary shares for each management share.

For LWT chairman Mr Christopher Bland, who would hold the *largest number of* management shares, there could be a paper profit of almost £6m if the 327p price level was reached.

When the company first outlined its proposals in August, they were greeted with some *institutional complaints*. The revised scheme has also run into objections from certain shareholders – *in particular* some of the life companies.

However, Mr Bland has already said that he believes investors will back the *scheme, and at least one of the* other declared shareholders suggested yesterday that it will be supportive.

Margins rise 2% as realigned Elliott advances 79% to £3m

By Jane Fuller

B ELLIOTT, the engineering company, lifted its pre-tax profit by 79 per cent from £1.71m to £3.05m for the six months to September 30.

With *turnover growing* by 28 per cent to £50.93m (£30.89m), the company stressed the improvement in profit margins from 6 to 8 per cent.

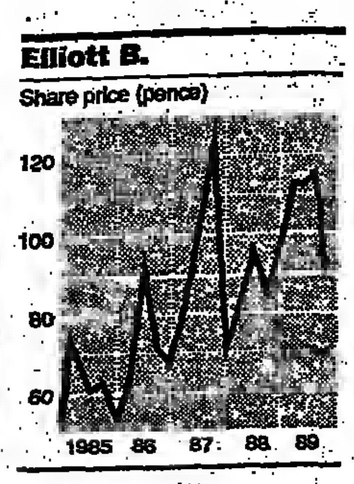
Mr Michael Frye, *chairman*, maintained that this was due to attention to quality, improved direction, a better business balance and shedding poor activities.

Since 1987, the company had moved away from deriving most of its turnover from machine tools and most of its profit from South Africa. Now machine tools, split between manufacture and distribution, accounted for 35 per cent of the business and the South African steel mill has fallen to 10 per cent.

The other 55 per cent came from the electrical and specialist *engineering divisions*, with Halifax Rack and Screw doing well selling to a variety of sectors, and Philidas, the fasteners maker bought from Williams Holdings, experiencing strong demand from the car industry.

The interim results include three or four months of earnings from the former Williams subsidiaries and Insley. Mr Frye said there was considerable improvement to come from these, as well as a contribution from Addison Tool, bought earlier this month.

Michael Frye: Improvements to come from acquisitions



As a result of these moves, the interest charge rose by £350,000 to £1.02m and gearing stood at about 55 per cent. The target is to reduce this to less than 25 per cent by the year-end, partly *by disposing of* property.

Apart from increasing debt, the purchases involved issuing a lot of paper, which accounted for the flat earnings per share of *4.55p*.

The interim dividend is 1.25p (1.1p).

● COMMENT

Elliott looks on course to double its profits for the full year to between £8m and £8.5m. Apart from reaping more bene*fit from acquisitions* and reducing borrowings, it has increased the proportion of business overseas to *40 per* cent and is heading for 50 per cent next year. The grinding machines lead the way: 95 per cent of them are exported. A further improvement in margins can be expected as new contracts replace old. Although the company's *sales* are *often* to customers with specialist needs, as a UK merchant it is vulnerable to a downturn. If the volatility and delays already noticed translate into fewer orders, the process of improving margins and reducing *debt will take* that much longer. On a prospective multiple of 7.5, it is not a bad medium-term bet.

Ewart pays £12.5m for Switzer

By Maggie Urry

EWART, the Belfast-based property company, has agreed terms to buy Switzer, a four-department store group in the Irish Republic, from House of Fraser.

The purchase price was set at £12.5m, which compares with net assets of £8.5m.

Talks between the two groups on the deal were revealed last month, after rumours circulated in Dublin about the sale of Switzer. These rumours suggested a deal worth I£35m (£31.5m), comprising a I£15m sale price and the taking on of I£20m of debt.

Switzer made a pre-tax loss of *I£536,000 in the year ended* April 29, a much smaller loss than the I£3m suffered in the previous year.

Ewart said the acquisition, which will be put to shareholders at a special meeting, provided opportunities for growth *in the Republic*.

It said it was negotiating with a retailer to co-operate in managing the Switzer stores.

'Transaction' due at J Dickie

By Ray Bashford

JAMES DICKIE, the maker of drop forgings and grey iron castings which is under attack from dissident shareholders, will announce a "major transaction" within the next three weeks.

Mr Kenneth Dickie, chairman, said that the terms of the deal would be announced at the same time as shareholders are informed of the date for the extraordinary general meeting requisitioned earlier this week by *the dissidents*.

The meeting, which has to take place during the next three weeks, was requisitioned by Specialist Holdings, a London-based consortium with a 14.9 per cent holding in Dickie. Specialist is seeking to gain board *control*.

Specialist, headed by Mr Keith Daley, last April failed in an attempt to unseat the board, but Mr Daley has since strengthened his voting block to represent 19.7 per cent of the capital by acting in concert *with several other shareholders*.

Mr Dickie declined to give further details of the planned transaction. However, he said that Mr Daley had been involved in abortive discussions about the acquisition of a *different company before he* requisitioned the meeting.

Specialist proposed a takeover of the third party to James Dickie and during the discussions Mr Daley was given "confidential inside *information*" about James Dickie, the chairman said.

I£9.8m rights from Xtra-vision

By Ray Bashford

XTRA-VISION, which joined the USM last May, is financing the expansion of its video cassette rental stores chain through a rights issue to raise I£9.78m (£8.8m).

The company is making a first move into the US market through the acquisition of two video store companies while the the chain in Ireland and the UK will be developed through further purchases.

The company plans to own and operate 250 video cassette *stores by January next year*, Mr Herbert Boyle, the finance director said yesterday.

Proceeds from the rights issue, which is being made on the basis of one-for-four at 80p per share, will also finance the refurbishment of some of the existing outlets.

Xtra-vision also announced pre-tax profits more than doubled from I£434,000 to I£1.04m during the six months to July 31 on a rise in turnover to I£4.4m (I£1.5m).

The US companies being acquired are Videosmith, which operates 11 stores in Boston, and Video Library, which operates 27 stores in New Hampshire.

Videosmith is being bought for an initial cash payment of $2.5m (£1.56m) and the repayment of $944,000 in loans while further payments up to $1.25m are linked to profit *performance*. The vendors also have an option over 350,000 Xtra-vision shares at I£1.

The Video Library purchase has an initial consideration of $1.5m and further profit related payments of up to $3.5m can be *satisfied by a combination of* cash and shares in Xtra-vision.

Sotheby's cuts loss to $5.12m

By Clare Pearson

SOTHEBY'S HOLDINGS, the international auction house listed in London and New York, yesterday reported a net loss of $5.12m (£3.2m), compared with a $6.22m loss, during the seasonally quiet three months to end-September.

The company said this outcome was in line with its expectations. Net income for *the nine months so far stands* at $51.24m, up from $30.43m, reflecting the further expansion of and buoyancy in the international market for works of art. The third quarter loss per share was $0.10 ($0.12).

In June, Sotheby's declared a one-for-one scrip issue. A dividend of $0.05 has been declared for the quarter.

Sotheby's described as a "solid success" last week's New York sale by the heirs to the *Campbell Soup fortune* of the John T Dorrance collection. This, the first big auction of the autumn season, raised $131m, some $10m short of the highest forecasts.

During the third quarter, auction sales moved ahead by 38 per cent to $124.09m ($89.81m). After a similar rise in operating expenses to $51.10m ($36.74m), the operating loss was $8.22m ($9.05m). Non-operating expenses fell to $1,000 ($753,000).

Important upcoming events include the sales next month in New York of major Picassos, among them the 1905 Rose Period picture Au Lapin Agile, and in London of 15 paintings from the J Paul Getty Museum.

Low take-up for Queens Moat issue

A month ago, Queens Moat Houses was besieged by angry small shareholders whose applications for a rights issue missed *the deadline because of* a printing error and postal delays. The hotels group gave 681 of them an unusual second chance.

However, when the offer closed yesterday, fewer than 17 per cent of 1.16m shares on offer had been taken up.

The intervening fall in Queens Moat's share price to 98p, where they closed yesterday, made the 108.73p terms far less attractive to shareholders who had already received 15.73p per share in cash for their rights which had been sold in the market. The shares not subscribed for will not be issued.

Singer takes another bite of Apricot

Singer & Friedlander Group, the merchant bank, has increased its stake in Apricot Computers, the computer and software manufacturer and supplier, to 14.86 per cent.

Singer, which is buying on its own account, has indicated its desire to increase the holding above the 20 per cent level at which it can consolidate a proportionate share of Apricot's profits.

Lep expands Benelux distribution network

By Jane Fuller

LEP GROUP has expanded its Benelux distribution network through the purchase of Steenbergen of the Netherlands.

Steenbergen brings more *than 60* vehicles and warehousing in five Dutch towns to LEP Swift's expanding European network. Mr John Read, group chairman, said the purchase price was "less than £5m cash."

Lep's Swift Transport Services, which has about 400 vehicles in the UK, specialised in time-definite deliveries to industry, for example, distributing Ford car parts to its garages.

"With 1992 coming we are working at doing the same sort *of thing throughout Europe*," Mr Read said. After the acquisition in May of two Belgian companies, the Steenbergen purchase meant that Lep had Benelux covered and could move into West Germany.

Mr Read said Swift in the UK *made pre-tax profits of about* £3m out of a forecast £30m for the group for the current year.

Overseas Inv nav climbs to 313.4p

Net asset value at The Overseas Investment Trust stood at 313.4p at September 30 compared with 242.6p a year earlier. Net revenue for the year improved from £698,000 to £1.15m for earnings per share of 3.06p against 1.87p.

Gross revenue *amounted* to £2.65m (£1.8m) while interest charged was a higher £383,000 (£243,000).

A final dividend of 1.45p (1.38p) is proposed for a 2.15p (1.86p) total.

TR Australia asset value ahead to 104p

Net asset value of TR Australia Investment Trust rose from 93.1p to 104.1p in the year to end-August.

Net revenue was £1.85m (£1.09m) for earnings per share of 3.96p (2.32p). A proposed final dividend of 0.8p makes a total of 2.8p *for the year after adjustment* for the scrip issue in September.

An EGM will be held on December 13 to propose a name change to TR Far East Income Trust.

Stanley Miller director quits over conflict

By Clay Harris

Stanley Miller Holdings, the Newcastle-based building contractor and property developer, said yesterday that Mr Harford Robb had resigned as a non-executive director.

Explaining Mr Robb's departure only nine months after his appointment, the company said his directorship of Award Homes, a private housebuilder based in the north-east, might lead *to a conflict of interest in* future.

The company noted that Mr Robb's directorship at Award had preceded his joining Miller and said the departure was amicable. Miller also said it had learnt that Mr Robb had sold the 33,051 shares he held in the company. Mr Robb could not be reached for comment.

Mr Robb is a former consulting partner with Arthur Andersen. He was chairman of Bucks Group, a warehousing and transport company which Hays bought in November 1988.

Other previous directorships include the chairmanship of Munton Brothers (now Aitch Holdings) and a non-executive position at micrographic equipment maker Imtec Group.

Trading picks up at Monotype

Monotype Corporation, which makes laser-based photo-typesetting equipment, said yesterday that since March it had won orders from newspapers and pre-press services groups worth more than £23m.

In July, the group announced it had lost £1.1m in the first three months of the year and passed its final dividend for the 15 months to March 31 because of poor trading conditions.

In a letter to shareholders posted yesterday, Mr Roger Day, Monotype's chairman, said the interim results would still show a loss, but trading since July had been good.

The move to new headquarters in Salford would release land for redevelopment.

Monotype's shares were unchanged at 103p, their lowest price since the group came to the market in 1986.

Sale of stake in Wentworth keeps Benlox in the black

By Paul Cheeseright, *Property Correspondent*

BENLOX made a first half pre-tax loss of £1.8m but finished up with an attributable profit of £5.8m following an extraordinary item of £7.08m from the sale of its stake in the Wentworth golf course.

The company, which has come under new management since it made a cheeky and abortive bid for Storehouse, is seeking to develop into a group with property interests at the core and cash-rich businesses on the outside. The largest single shareholder is Mr Paul Bloomfield, the property trader.

The interim loss, which compares with a 1988 first half loss of £480,329, came about because of discontinued activities and the absence of property sales.

Shareholders will receive an interim dividend of 0.5p. The 1988 interim was 0.1p and total payments for 1988 were 0.2p.

Benlox had planned to sell its 50 per cent stake in TGP 123, a company owning French apartments, to ICA Holding, a Dutch-registered company in which Mr Bloomfield is also a substantial shareholder.

ICA is a co-owner of TGP 123. But prices have been going up and ICA has now decided to sell their holdings together.

The company said it was having negotiations on the sale of investments which would eliminate its indebtedness and result in "a significant profit".

Board changes were announced at the same time as the figures.

Mr Richard Morris, a stockbroker, is becoming chairman and Mr Bob Hankes-Drielsma, a banker, is joining the board. Mr Peter Earl and Mr Goran Ekdahl have resigned. Mr Simon Berrill who has been combining the posts of chairman and chief executive reverts to the position of chief executive.

Usher-Walker up 36% but sounds cautious note

USHER-WALKER, manufacturer of printers' inks and rollers, had a successful half year to June 30 with pre-tax profits advancing 36 per cent from £596,000 to £808,000.

Mr Peter Walker, chairman, said the results were influenced by several situations of a non-recurring nature and the general buoyancy of the newspaper industry, which was now being affected by the slow down in the economy.

This year the company will also feel the impact of higher interest charges on its substantial increase in borrowings, but it has now cut back on non-vital expenditure.

However, Mr Walker said that the underlying profits growth trend continued and the board had decided to increase the interim dividend from 3p to 3.5p, an increase of 16 per cent.

Turnover advanced from £6.76m to £8.63m.

Earnings per 10p share increased from 16.63p to 22.69p after a tax charge of £323,000 (£240,000).

Property side hits Upton & Southern

Upton & Southern Holdings, the retail trading, and property investment and development group, saw taxable profits decline from £336,000 to £115,000 in the 28 weeks to August 15.

Mr Cameron Morpeth, chairman, attributed the downturn to property development activities. There was a "substantial shortfall of property in the first half compared to last year due to the timing of completions in our short-term programme," he said.

In contrast, the retail side was benefiting from its long-term reorganisation. There was a "marked improvement" at McKenna & Brown, Mr Morpeth said, and this was continuing in the second half.

Turnover improved to £7.11m (£6.26m). Earnings per share worked through at 1.1p (3.2p).

Ensign Trust nav rises to 111.62p

In the year to end-September, net asset value of Ensign Trust rose by 35 per cent from 82.54p to 111.62p per share.

Revenue *before* tax was down from £5.73m to £4.36m after interest charges jumped to £6.6m (£4.79m). Total revenue rose to £15.47m (£13.01m).

After tax of £474,000, against £1.97m, earnings per share were up from 1.27p to 1.31p. A recommended final dividend of 1p makes a total of 1.3p (1.2p).

Over the past year, MNIM, the company's wholly-owned investment management business, earned pre-tax profits of £1.66m (£1.09m); the CDFC Trust, Ensign's 51 per cent-owned investment trust subsidiary, increased its dividend by 14.3 per cent to 0.8p.

The United East India Company, a wholly-owned dealing subsidiary, earned pre-tax profits of £714,000 (£225,000).

Atlantic Resources calls for I£2.94m as losses rise

ATLANTIC RESOURCES, the Dublin-based oil and gas exploration and production company, is raising I£2.94m (£2.65m) through a 2-for-11 rights issue at 8p per share, with provision for a further I£2.29m if associated warrants are exercised.

The USM-quoted company also announced substantially increased pre-tax losses of I£2.84m (I£528,000) for the half year to June 30 after an exceptional debit of I£2.2m (nil).

This item arose from the writing-off of costs associated with the relinquishment of an exploration licence. Turnover fell from I£222,000 to I£125,000.

Proceeds from the issue will be used principally to fund offshore UK and Irish Republic exploration costs.

Five warrants will be attached for every 12 new ordinary shares subscribed for. The warrants, which will be quoted, will entitle the holder to subscribe for one ordinary share at 15p until June 1 1990.

The directors will subscribe for 1.57m of the shares and Competrol Establishment will subscribe for its full entitlement of 2.09m shares.

Operating losses during the first half rose to I£671,000 (I£450,000). After tax of I£321,000 (I£17,000 credit) losses per share worked through at 1.69p (0.3p).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Barrett (Henry)	fin	3.45†	Feb 5	2.3	5.1	3.4
Elliott (B)	int	1.25†	Jan 15	1.1	-	3.6
Ensign Trust	fin	1‡	Jan 8	0.9	1.3	1.2
Jacob (W&R)	int	3♣		2.8	-	8.5
Overseas Inv Tst	fin	1.45	Dec 22	1.38	2.15	1.86
Regina Health	fin	0.5	Dec 15	0.5	0.5	0.5
Shiloh	int	0.875	-	0.875	-	2.375
TR Aust Inv Tst	fin	0.8	Jan 2	1.5*	2.8†‡	2.1*
Usher-Walker	int	3.5	Dec 8	3	-	10

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ♣Irish currency. ‡Also proposing to pay interim of 0.8p on May 21. ‡‡ Excludes special payment.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims- Airflow Streamlines, Brown (N), Channel Tunnel, Fleming Universal, Moss Bros, SKF, Toshiba.

Finals- British Assets Trust, Investors Capital, Kalamazoo, Majestic, National Home Loans, Pegasus, Rand Mines.

FUTURE DATES

Interims-	
Argyll Energy	Oct. 27
Addis Bros (Hosiery)	Dec. 5
British Island Airways	Dec. 8
MBS	Oct. 31
Norfolk International	Nov. 3
RIT Capital Partners	Nov. 2
Finals-	
Thorntons (J)	Nov. 6
Trinidad	Nov. 6

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COMMODITIES AND AGRICULTURE

Oil producers attempt a difficult balancing act

Steven Butler explains why Opec's vision of stability through the 1990s may be hard to achieve

A REMARKABLY clear vision of the 1990s world oil market emerged last week in London, where the oil ministers from Saudi Arabia and Iraq – the most important Middle Eastern oil producers – talked about the future.

It is a vision that looks good for consumers, because it foresees moderate prices, and less good for the oil companies, because it does not include the spike up in prices that many analysts have been expecting to fatten corporate profits.

Still there is a pot of gold awaiting *anyone* who bets right on whether this vision will ever come to pass. Few forecasts abont oil markets ever do.

Yet for Mr Hisham Nazer of Saudi Arabia and Mr Issam Al-Chalabi of Iraq, who addressed a conference sponsored by the International Herald Tribune and The Oil Daily, it is more than just a question of vision. This is because the governments which these two men serve play a pivotal role in infinencing the course of events.

The vision is simple – that outside of the Organisation of Petroleum Exporting Countries there is almost no scope for increasing production, leaving Opec, and particularly the five big Middle East producers – Iran, Iraq, Kuwait, Saudi Arabia and the United Arab Emirates – in position to satisfy rising world demand, which they will do sufficiently to keep prices from rocketing.

Mr Nazer, whose country has the biggest petroleum reserves in the world, was unequivocal about this.

"Too high a price merely sets the stage for too low a price," he said.

Opec had learned the lesson of the 1970s, that high prices lead to a drop in consumption and more exploration outside the Opec countries that eventually push prices down with devastating effect on the oil producers. Mr Nazer does not want to see a repeat.

Neither does Mr Al-Chalabi, who spoke of Opec's intention not to provide, by means of high oil prices, economic incentives for "a new cycle of substitution and conservation," which would again reduce demand for Opec crude oil.

These views are consistent with a draft of Opec's long term strategy document, which, while discussing various long term price goals, appears to make the strongest case for maintaining a price target of $18, and adjusting it upward for inflation.

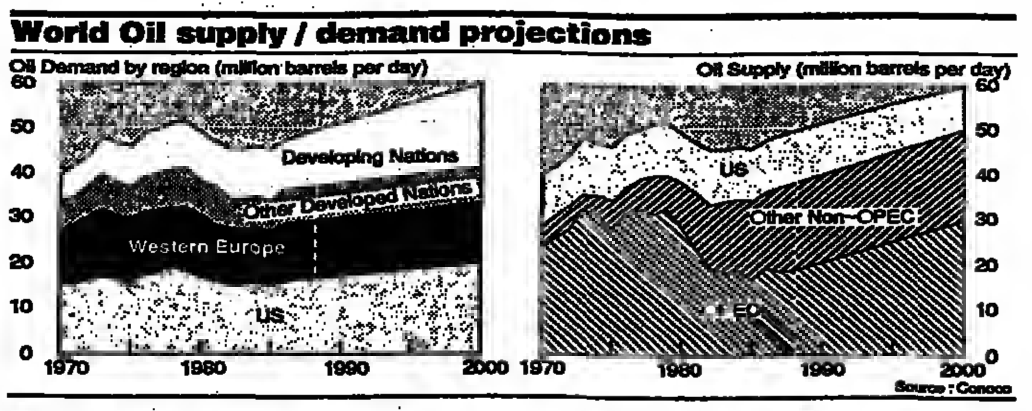
In short, Opec, particularly its biggest producers, appears reasonably united on its view of the sort of oil prices it would like to see in the coming years, and these are only moderately higher than today's prices.

Aside from the question of whether they will change their minds in a few years (and discounting the extremely cynical suspicion that they are just trying to discourage oil company investment so they can jack up prices more quickly), it remains an open question whether Opec can engineer prices. Its vision is of a market managed by Opec, but Opec (and just about everyone else who has tried) has always failed to achieve this before. Why should Opec succeed this time?

Opec is currently producing nearly 23m barrels of oil a day, compared with current sustainable capacity of 26m b/d. This is a consensus view in the oil industry, although Mr Al-Chalabi believes Opec capacity is actually closer to 28m b/d.

World oil demand outside the communist world is, by comparison, abont 52m b/d. Virtually all observers assume that oil supplies from non-Opec sources will not rise significantly in the coming years, and that they will decline by at the latest the latter half of the 1990s, with the speed depending on oil prices.

World Oil supply / demand projections



Source: Conoco

In the accompanying illustration, Conoco, the US oil company, has used fairly standard industry assumptions about the rate of growth of demand at 1.5 per cent e year, resulting in world demand at about 60m b/d by the end of the century. At 2 per cent annual growth (which appears as likely as 1.5 per cent) demand would rise to 63m b/d by the year 2000, leaving Opec to snpply the market with between 8m b/d and 11m b/d over current production.

While no sane oil analyst these days dares to publish anything so crude as a prediction (since they have always been wrong in the past), this is the rough picture which the industry is thinking about, and it implies one thing: production capacity in the Middle East will have to be raised by a significant amount, and quickly, if the world is not to be found short of oil.

Mr Al-Chalabi last week gave confident assurances that the gradual 7m b/d increase which he reckoned was needed by the end of the century, was easily within the financial and technical capabilities of the countries involved, and this is certainly the consensus view among the industry.

Others, however, are not so sure. By one estimate a 10m b/d increase throughout the region, which would involve some taking production out of mothballs, would cost over $40bn in capital investment, which does not look impossibly expensive. But just as important, who will supply the hardware and who will instal it? World production on average has stagnated for a decade, and the industrial capacity for a rapid increase in oil related engineering work concentrated in the Middle East may not be easy to muster, especially if the rest of the world is simultaneously embarking on a massive effort to alter industrial plant to reduce harmful emissions.

Yet even without financing or technical constraints, oil production capacity takes years to increase, even when reserves have been identified. With all five countries acting independently, and with demand for oil stubbornly resistant to precise forecasting, Opec will not easily be able to maintain the 10 per cent or so of surplus capacity needed to manage the market comfortably.

Chances are better that Opec will either under-build capacity, causing prices to soar at least temporarily, or significantly over-instal capacity, raising the potential problem of a glut on the market, and both of these outcomes would have significant knock-on effect on subsequent demand.

If the five big Gulf producers invest to lift capacity they are likely to want to use it, even though they may have more coincidence of interest in the next decade during a period of rising demand than they have had in the past, when some of them were at war.

In short, the vision that Mr Nazer and Mr Al-Chalabi eloquently articulated last week will not be easy to achieve, in spite of the influential positions of their governments and the obvious economic attractions both for the Opec nations and the world economy.

Zimbabwe growers get high prices for big tobacco crop

By Mike Hall in Harare

THE HIGHEST ontput in 25 years, combined with favourable prices, has left Zimbabwe's tobacco industry in e buoyant mood. Growers forecast even higher production in 1990, weather permitting, in line with a policy of gradual expansion.

Just under 130m kg of flue-cured leaf was sold this season, up 12 per cent from almost 120m kg last year. Since opening in April, a record 1.39m kg per sales day passed through the Harare anction floors which closed earlier this month.

The average price was up 9 per cent in local currency terms, from last year's 393 cents (then US$207) a kilogram in 1988 to 430 cents (US$193) this year, boosting returns to farmers who say they were able to contain production costs. Quality was high, with strong demand for ripe orange leaf, auction sources say.

Output this year was second only to the 147m kg produced in 1964, just before the imposition of economic sanctions against the then white minority government.

Tobacco quickly regained its place as Zimbabwe's largest single foreign exchange earner after sanctions were lifted in 1979 and now accounts for about 20 per cent of total exports. The value of this year's crop is estimated at $640 (US$290).

The Zimbabwe Tobacco Association, representing about 1,450 growers – predominantly large-scale commercial farmers, says export performance has improved significantly in volume terms, with permits issued for 74m kg in the first nine months of this year, an increase of 11 per cent over the same period in 1988.

Of this, 46 per cent is labelled for the European Community, a market in which Zimbabwe, the world's third largest exporter, has preferential access under the Lomé Convention, a trade and aid arrangement between the Community and the African, Caribbean and Pacific group of nations. Africa has taken 18 per cent, the Middle East 14 per cent, non-EC Europe 10 per cent, and the far east 9 per cent.

The industry expects an upturn in the EC market, with the lowering of tar limits expected in 1992, and the Japanese market, which has shown increasing interest in Zimbabwe. "The future looks very good, as long as we can maintain quality and increase output," one observer said.

The signs are encouraging. Average yields of 2,254 kg a hectare from the total 57,660 hectares planted were the second highest on record this year, despite excessive rains earlier in the season.

The Tobacco Marketing Board aims at least to maintain output at 130m kg in 1990, although growers say enthusiasm about prices this year is likely to see production rise to 135m-140m kg, mainly as a result of better crop management and handling, rather than by an increase in the area planted.

Production of the smaller burley tobacco crop has grown steadily to 5.2m kg this year compared with 3.8m in 1988. A small expansion to 6m kg is forecast for next year.

Brazil's oil stocks to be cut

By Ivo Dawnay in Rio de Janeiro

PETROBRAS, Brazil's troubled state-owned oil company, is to reduce the country's crude oil stocks to a maximum of 40 days in an attempt to improve its cash flow.

The decision, announced by Mr Carlos Sant'Anna, the company president, is aimed at pressurising the Government to improve prices, which it claims are now 20 per cent below their correct levels.

The reduction in stocks could put diesel and petrol supplies in jeopardy in many areas of Brazil at a time when there are already growing shortages of alcohol fuels – used to power about half the country's private car fleet.

Petrobras, which has been in open dispute with the Government for months over pricing policy, is angry at a special deal granted by Brasilia to the electricity utility, Electrobras last week. This gave the power company an exemption from the Government's new price accord with private sector industry, which aims to hold price rises down to a figure equal to 90 per cent of the previous month's inflation rate.

With inflation running at 37 per cent a month and Electrobras owing the oil company several hundred million dollars, company managers believe a similar deal should be available to them.

An independent oil industry expert said yesterday that government efforts to hold down prices was fuelling demand, with sales showing a 15 per cent increase.

Next year, shortages of alcohol fuels are expected to equal two months' demand.

Alcohol fuel 'no substitute for petrol'

By John Barham in Sao Paulo

SUPPORTERS OF Brazil's fuel alcohol policy have become less ambitious in their long term view of the alternative energy programme.

They once thought that alcohol, which is distilled from sugar cane, would end Brazil's reliance on imported crude oil. But instead the policy is buckling under the weight of its inherent contradictions.

Mr Julio Maria Borges, an official of Copersucar, a large Sao Paulo sugar and alcohol producers' cooperative, told a sugar cane technology conference in Sao Paulo earlier this week that "alcohol should be seen as a strategic (energy) reserve and not as a substitute" for oil.

The emphasis must now be on increasing alcohol's efficiency, he said.

Brazilian petrol consumers pay high prices to cross-subsidise alcohol prices. However, rising consumption of alcohol has created a surplus of petrol, forcing the Government to scale back dramatically the alcohol programme.

Rubber price slips below buffer stock support level

By Lim Siong Hoon in Kuala Lumpur

RUBBER PRICES, which have been sliding in Kuala Lumpur and Singapore for months, have at last breached the international rubber stock price support level. But the markets will see no intervention from the International Natural Rubber Organisation (Inro), for the time being at least.

On Tuesday, Inro's single-day indicator price dipped nearly half a cent below the buffer stock manager's 185 Malaysian/Singapore cent lower intervention, or "may buy", level.

This is the first time since April, when the second International Natural Rubber Agreement (Inra II) introduced an 8 per cent upward revision from the old price support bands, that rubber prices have fallen below the "may buy" level. At 184.69 Malaysian/Singapore cents a kilogram, down from 185.55 on Tuesday, the indicator price is also at a 30-month low.

But before he can start buying, the buffer stock manager must wait until the five-day moving average of the indicator price drops below the trigger level. Yesterday the average was 185.57 Malaysian/Singapore cents a kilogram, down from 186.02 on Monday.

Rubber prices have fallen despite the shrinking output in Malaysia this year. January-to-August prodnction amounted to 934,000 tonnes, some 12 per cent below the corresponding period last year, according to figures released earlier this week by the Statistics Department. This year's production level is widely expected to be 9 or 10 per cent lower than the record of 1.66m tonnes achieved last year.

Mr Yap Chiat Bine, the senior buffer stock officer, said Inro's indicator prices were likely to move within the range of 184 to 186 Malaysian/Singapore cents a kilogram for the rest of this month.

Inro's indicator price is a composite of three rubber grades, RSS International One, RSS Three, and TSR 20 traded in Kuala Lumpur, Singapore, London, and New York.

Latex imports hit Chinese plantations

CHINESE RUBBER plantations will lose more than 100m yuan (£16.8m) this year because excessive latex imports have swamped the market, the Farmers Daily said, reports Reuter from Peking.

It said strong demand for surgical gloves caused imports of latex in 1988 and 1989 to exceed 60,000 tonnes, far more than demand, so the latex price had fallen to 5,000 yuan a tonne from 18,000 yuan last year.

Latex can be stored for only six months, so local suppliers are being forced to sell their stocks at cut prices.

The newspaper said current stocks of latex were enough for two years and domestic production capacity was 70,000 tonnes a year, against demand of 40,000 tonnes.

This surplus has badly hit rubber-growing areas, especially Hainan and Guangdong provinces, with some wages not being paid, it said.

It quoted unnamed experts as saying imports should be tightly controlled to protect the domestic rubber industry.

Hunan farmers dump grain authorities cannot afford

FARMERS IN the south China province of Hunan have dumped grain for which they cannot be paid at the homes of local officials and some plan to return grain land to the state, the Farmers Daily has reported, Reuter from Peking.

In the latest report on the lack of cash to pay farmers, it described how angry farmers in Nanxian county carried their crop to the officials' homes, shouting: "You wanted me to grow this. The purchasing station won't buy it, so you must."

Some said they would give up grain land. The county is 20m yuan (£2.4m) short of the 75.4m yuan it needs to buy all the grain produced by its farmers, the newspaper said.

Profiteers are snapping up grain at less that what it cost to grow, but the farmers prefer that to getting nothing, it said. The cash shortage is a result of an austerity programme that has cut supplies of credit and caused widespread diversion of funds allocated to buy the crops.

Farmers in Jianli county, the top grain-producing area in Hubei province, have grown a record crop this year, but are being turned away from purchasing stations because of a cash shortage and lack of storage space, the newspaper said. Warehouses are already full, so half of what has been bought is lying in the open, where it will rot, it added.

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA PRICES closed at the lowest level for 14 years on the London futures market yesterday amid talk of Ivory Coast selling. The March position ended at £703 a tonne, £16 down on the day, after dipping to £698 at one point. The Ivorian authorities have appointed Moutafian, the London broker, to handle bids for the country's cocoa beans in the 1989-90 season, but traders said many prospective buyers were likely to go straight to the Caisse de Stabilisation (the Ivorian marketing board) for supplies. "The suspicion is that the selling (yesterday) was linked to the Ivory Coast. The market looks very vulnerable," one trader told the Reuter news agency. On the London Metal Exchange most base metals recouped some of their recent losses. The exception was nickel, which lost another $80 in the cash position at $10,322.50 a tonne.

US MARKETS

IN THE METALS, prices fell slightly in the gold, silver and platinum markets due mostly to rebounding stock prices, reports Drexel Burnham Lambert. A stronger US dollar also pressured the markets. Commission houses were players in the light volume. Copper prices were higher after two days of sharp declines. In the softs, sugar rose from light commission house and local activity. Origin selling kept cocoa down. Coffee trading remained slow. The grains featured higher prices in the soy complex and corn. Heavy export business in bean oil helped the other markets gain. Wheat was lower after quiet dealings. The livestocks had higher belly futures on Poland export news. Live hogs and cattle had local action. Cotton advance from heavy trade activity. The energy complex continued to have slow trading and tight ranges in most markets.

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LONDON STOCK EXCHANGE

Cautious rally in nervous market

LONDON STOCK market traders breathed again yesterday morning when they saw that Wall Street had largely recovered the early losses suffered in the overnight trading session. The UK market opened steadily and, helped by a firm start to the new trading day in New York, managed to recover just under one third of Wednesday's sudden fall.

But turnover in equities was woefully thin and, except for a handful of special situations, there was little to keep traders occupied. The market's recovery paused noticeably ahead of Wall Street's opening as traders took cover for fear that any further setback in New York

Account Dealing Dates			
First Declarations:	Oct 16	Oct 30	Nov 13
Option Declarations:	Oct 26	Nov 9	Nov 23
Last Dealings:	Oct 27	Nov 10	Nov 24
Account Day:	Nov 6	Nov 20	Dec 4

*New time dealings may take place from 9.00 am two business days earlier.

might prompt another swift about turn in UK equities.

The final reading showed the FT-SE Index at 2,161.9, a gain on the day of 12.6 points. However, not all Footsie stocks joined in the recovery. A leading UK-based securities house downgraded a number of the international blue chips on the basis of increased concern regarding the US economy.

The signs of a change of mood towards the US economic performance, indicated by the fall in non-defence orders for US durable goods in September, increased London's apprehension over the nervous mood on Wall Street. The UK institutions remained out of the London market yesterday and traders were clearly afraid of being caught out again should the New York market suffer another sudden setback.

Yesterday's rally in the UK market's domestic stocks appeared little more than a technical recovery from the sudden 40 point setback suffered in the second half of Wednesday's trading session. Among the few features, Coates Bros, the chemical company, advanced strongly on the news of a bid approach from Orkem, the French State-owned group. But overall it was a slack day for trading statements from UK companies, but today brings the quarterly earnings report from ICI, one of the market's bellwether stocks.

Equity volume continued to drift downwards to levels implying further problems for London securities trading houses. At 374.5m shares yesterday, Seaq volume slipped from the 405.2m of the previous session. There were new hints of impending cutbacks by leading houses.

However, there was still little sign of any selling of equities by the big institutions, and some traders reported modest buying enquiry from French and Italian funds.

A steady performance by the pound as the foreign exchange markets absorbed this week's announcement of the September deficit on UK trade helped sustain the UK blue chip stocks. But the market's nervousness as it waited for Wall Street to open yesterday indicates that London is at present more dependent on Wall Street than it would like.

FINANCIAL TIMES STOCK INDICES

	Oct 25	Oct 24	Oct 23	Oct 20	Oct 19	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	85.21	84.88	84.66	84.59	84.70	88.76	89.29 (8/2)	83.75 (14/5)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.04	94.05	94.05	93.74	93.20	97.49	99.59 (15/3)	93.20 (19/10)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1751.9	1739.3	1772.6	1781.0	1772.1	1500.9	2008.0 (5/9)	1447.8 (3/1)	2008.8 (5/9/89)	49.4 (26/6/40)
Gold Mines	195.8	195.1	198.3	197.3	193.2	166.5	215.2 (28/9)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2161.9	2149.3	2189.7	2179.1	2188.3	1850.7	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.72	4.75	4.68	4.66	4.63	4.64				
Earning Yld %(full)	11.36	11.42	11.21	11.24	11.10	11.68				
P/E Ratio(Net)(☆)	10.64	10.58	10.78	10.74	10.82	10.37				
SEAQ Bargains(5pm)	20,020	23,239	21,323	19,280	20,915	23,495				
Equity Turnover(£m)†	-	631.05	474.49	711.49	785.00	998.04				
Equity Bargains†	-	20,098	20,319	19,205	20,703	23,942				
Shares Traded (ml)†	-	298.6	241.7	311.9	333.4	376.3				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ☆ Nil 10.55

Ordinary Share Index, Hourly changes — Day's High 1752.2 — Day's Low 1739.1

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1744.4	1746.1	1749.3	1746.6	1741.1	1740.7	1741.7	1744.0

FT-SE, Hourly changes — Day's High 2162.7 — Day's Low 2148.7

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2153.5	2155.2	2159.3	2156.6	2149.5	2149.7	2152.3	2155.4

GILT EDGED ACTIVITY

Indices*	Oct 24	Oct 23
Gilt Edged Bargains	119.0	95.9
5 – Day average	107.3	106.5

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	1,900	147	+5	Courtaulds	927	359	+10	LASMO	505	512	+5	Saatchi & Saatchi	434	[illegible]	-1
Abbey National	1,600	144	+1	Dalgety	383	367		Laporte	978	239	-2	Sainsbury	2,200	263	+1
Allied-Lyons	752	430	+4	Dixons	2,800	111	+1	Lucas	1,800	615	+4	Scott & Newcastle	528	362	+3
Amstrad	1,200	50	+1	Eng. China Clays	249	482	+2	MB Group	973	182	+2	Sears	2,300	106	+1½
Argyll Group	1,100	225	+3	Enterprise Oil	143	588	+3	MEPC	99	522	+10	Sedgwick	892	272	+3
Ass. Brit. Foods	225	375	-2	Fisons	1,300	321	+6	Marks & Spencer	2,100	194	+1½	Shell Transport	4,800	421	
BAA	2,100	334	+3	General Accident	505	1033	+10	Maxwell Comm.	238	211	+4	Siebe	1,100	478	-10
[illegible]															

Profits taken in Hanson

Investors took profits in Hanson amid suggestions that two securities houses were recommending switching into BTR and Trafalgar House. Both houses denied the story, but caution over prospects for the US domestic market prompted Mr Jack Jones, analyst at UBS Phillips & Drew, to downgrade Hanson and RTZ from a buy to a hold. He said the companies were vulnerable to a change in sentiment on US capital and consumer spending. Several companies with US activities bucked the market's upward trend.

His colleague, Mr Paul Compton, trimmed his forecast for Siebe partly for similar reasons, but also because it is understood that the company had suggested his £178m forecast for current year profits was too high. It subsequently let it be known that it felt the new estimate of £168m was too low, but not until the appearance of one large institutional seller had knocked the shares back 19.

Sentiment was also hurt by suggestions that Kleinwort Benson had downgraded. But Ms Janet Sidaway at Kleinwort said that on Monday she raised the forecast from £170m to £173m. Siebe recovered by the close to 478p, still 10 lower on the day, on good volume for the stock of 1.1m shares. Volume in Hanson, usually well traded, swelled to more than 15m as the price slipped 2¼ to 212¼p; RTZ turned over a good 3.1m shares as it fell 9 to 497p.

Jaguar wanted

Among the market's few active features, Jaguar moved up smartly as London followed Wall Street's favourable response to Ford Motor's declaration that it is prepared to make an all-out bid for the UK car group. This indication of an pending full-scale bidding war between Ford, now holding nearly 12 per cent of Jaguar, and General Motors, which has filed to take a 15 per cent stake and is in talks with the Jaguar management, focused the stock market's attention on the future of the Golden Share in Jaguar held by the UK Government.

The shares gained 21 to 715p, with 3.4m traded, and London traders seeking traces of further buying of Jaguar stock by Ford. The Goldeu Share, which effectively enforces the limit of 15 per cent on individual shareholdings in Jaguar, does not expire until the end of next year and Jaguar would be likely to resist its early abolition.

SmithKline Beecham's "A" shares succumbed to switching from the Equity Units. The former slipped 7 before recovering to close a penny off at 529p, while the latter climbed 65 to 2395p. The relationship between the two types of share is complicated, but in principle the price of an "A" share should be one-fifth that of an Equity Unit.

Interest in BTR was stimulated by stories of a broker's recommendation to switch out of Hanson. This was balanced by continued vague doubts, emanating from the US, that KKR, the leveraged buy-out specialist which has secured permission to take a stake of up to 15 per cent in BTR, was having difficulties in the high interest rate environment. BTR ended unchanged at 414p on steady turnover of 2.2m shares.

Further thoughts on how the start of traded options dealing on Monday in Polly Peck might stimulate demand helped the shares rise 19 to 344p.

Speculative stories surrounding the Burmah/Calor/Premier/SHV grouping continued with Burmah easily outperforming the other two UK oil groups on persistent stories that SHV may have been back in the market to increase its stake. The SHV stake was last revealed as being 7.5 per cent.

But turnover in Burmah shares was only 331,000, and dealers said any buying by SHV, or by the US arbitrageurs who have moved into Burmah recently, could only have been on a modest scale.

Burmah's share price closed a net 14 higher at 674p, only 5 shy of the year's high. Calor Group were bid in pretty thin trading, the shares settling a net 4 higher at 434p. Premier managed a minor gain at 108p.

Ultramar edged up 2 to 318p, on 1.1m shares, amid some very vague whispers of possible stake-building by North American interests; a 4 per cent-plus stake in Ultramar was gradually built up earlier this year, by two Canadian groups with the assistance of a French bank, but subsequently sold.

Shell Oil's third quarter figures were in line with estimates but highlighted the group's exposure to the sharp downturn in the international chemicals business. Shell Transport held at 421p in relatively active trading of 4.9m.

Shares in Coates Brothers, the speciality chemicals group, shot up 141 to 408p after the company revealed it had received a bid approach from Orkem, the French state-owned company.

Orkem already has has a 40.6 per cent stake in Coates, acquired in February last year, when Coates bought Orkem subsidiary Lorilleux.

Talk in the market suggested that the French company may well have to pay upwards of 500p a share to win acceptance of a bid; "the shares have been undervalued precisely because of the 40.6 per cent Orkem stake which has obviously frightened any other potential bidder," said one observer.

Among food manufacturers, Unigate were active, following positive notes from two UK securities houses. The shares closed up 20 at 352p.

Mr Richard Allan of Kleinwort Benson said he believed the market had not factored a large enough bid premium into Unigate's share price. "Bid hopes have been all but forgotten by the market," he said.

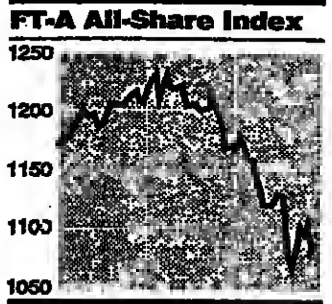
Analysts said one company that could be interested in bidding for Unigate's important dairy products division is BSN, the French food manufacturer, which was in London yesterday for an investor presentation. Mr Carl Short of Kitcat & Aitken said he believed Unigate's dairy products division would be a "good fit" with BSN's major dairy products division. "With Larry Goodman holding nine per cent of Unigate there would appear to be no shortage of interested parties in Unigate's businesses," he said. He doubted, though, that a bid for Unigate would appear immediately.

Cadbury Schweppes dipped after BZW and Hoare Govett downgraded their earnings forecasts. Both lowered their forecasts from £300m to £290m for the current financial year. Cadbury closed down 4 at 347p.

The sale of Storecard by Storehouse was seen as only mildly bullish by dealers, and the price edged 2 ahead to 118p.

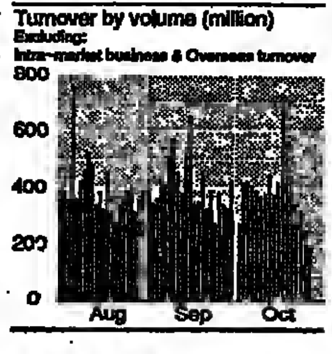
Kwik Fit continued to be sought after, climbing yet another 13 to 172p. Dealers said West German tyre maker Continental had been buying heavily since it revealed its stake to be more than 13 per cent last week.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



Business in Euro Disneyland was quiet on the share's second day of trade in when-issued form. Dealers marked down prices to follow those on the Paris grey market, and the shares shaded 5 to 805p.

Rank Organisation was another stock with US activities to suffer against the trend. Dealers noted a proposed $67m leaseback deal in the US for a cinema complex owned by Cineplex. If the deal goes ahead, said Cineplex, it expected "to enter into a new agreement with Rank Organisation in which Rank would buy the 51 per cent of Cineplex's film house subsidiary that it does not already own."

Rank would also help raise money for the proposed deal, said Cineplex. Rank fell 3 to 848p, on good turnover for the stock of just less than 1m shares.

A broker's presentation for Standard Chartered failed to generate any big buying interest in the shares which drifted off 3 to 480p, while renewed switching out of Royal Bank of Scotland into Bank of Scotland left the latter only marginally off at 98p while Royal Bank stock dipped another 3 to 185p.

The "big-four" showed minimal movements. NatWest, where turnover of 4.8m was inflated by a trade reporting error of around 1m shares, edged up 2 to 296p. Lloyds Bank, sustained by the buy note issued by Mr John Aitken at County NatWest, which says the shares "offer some of the best potential in the market for a significant re-rating over the next five years," were steady at 357p.

Insurances remained on the upward path although dealers said there was very little in the way of genuine customer business during the session. Lifes continued their recent strong showing. Britannic added 6 more at 584p and Refuge hardened 2 to 649p in markets said to be short of stock. Legal & General were well supported after the spate of buy notes on the stock with the shares finally 5 higher at 361p.

A firm composites sector showed Royal Insurance 6 higher at 483p on 1.9m still helped by overseas support. But Mr Peter Constable at Robert Fleming Securities recommends clients to take profits in the stock "boosted by US buying in recents days despite the implications of Hurricane Hugo and the San Francisco earthquake." He says estimates of the catastrophes are increasing – the official estimates for the earthquake losses is up to $5bn and Hurricane Hugo is estimated to have cost $4bn. The Flemings analyst has cut his current year forecast for Royals from £225m to £195m and has reduced his dividend expectation to 25p net.

British Aerospace put in a strong performance ahead of an institutional visit today to Toulouse, where the Airbus aircraft are built. BAe owns 20 per cent of Airbus Industrie and makes the wings for the aircraft. Sentiment was also boosted by thoughts of presentations in the middle of next week on BAe to European investors in West Germany and Switzerland.

Several unrelated factors helped Trafalgar House score a rise of 18 to 350p. There were renewed hopes on possible benefits from contracts on the construction of the Channel tunnel, added to that was a modicum of good sentiment from the $20m purchase by a subsidiary of a US industrial equipment supplier, while suggestions of switching from Hanson inspired by a broker's recommendation completed the cocktail.

A profits leap of 130 per cent to £10.1m at engineering contractor Henry Barrett pushed the share 17 better to 265p. The announcement of a "major transaction" to be enacted within three weeks by James Dickie propelled the shares to 180p, a rise of 40.

Cable & Wireless, and to a lesser extent the rest of the telecoms/electronics leaders, staged a strong rally after undergoing a recent rough patch.

C & W were up and running from the outset of trading, with one US securities house said to have been a keen buyer of the stock. There was also much traded options-related business done owing to the expiry of the October options.

At the close C & W were 13 better at 486p, having been 502p at one point. There was also a vague story that the company was part of a consortium which might win a West German cellular radio licence.

GEC advanced 5¼ to 222p after a pre-interims buy note issued by Mr Jack Summerscale and Mr Simon Street at BZW. The BZW analysts say that "worries ranging from confusion over dividend policy to the group's exposure to the defence industry are unwarranted." They believe GEC shares represent "excellent defensive qualities in an uncertain market; the interims in early December will help confirm the group's progress."

Dealers in the buildings sector said there had been a distinct move out of the second line stocks into the top quality areas. They also noted a bout of heavy selling of McCarthy & Stone, the sheltered homes group due to report preliminary figures in December.

Interest from Northern brokers helped Delta improve 4 to 317p. The company has been the subject of speculation that it might become the target for a bid from 2 per cent stakeholder Tomkins, which firmed a penny to 247p.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 24

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (18). BRITISH FUNDS (1) Treasury 2pc IL 1990, AMERICANS (1) Rockwell Int., BREWERS (1) Macallan-Glenlivet, [illegible] CHEMICALS (1) Coates Bros., INSURANCE (2) Britannic, Heath (C.E.), Steel Burrill J., MOTORS (1) Kwik-Fit, TEXTILES (1) Ingham (G).
NEW LOWS (49). AMERICANS (8) Bethlehem Steel, General Host, Gt. American Bank, TRINOVA, Texas Instr., CANADIANS (3) Granges, Muscocho, Tara Pure Tech., BANKS (1) Fuji Bank, BUILDINGS (3) Gibbs Dandy A, Laing (John), Meyer Intl., STORES (2) Dewhirst, Upton & Southern, ELECTRICALS (1) Imtec, [illegible] Ln 1990/92, Sterling Inds., MOTORS (1) Lex Service, NEWSPAPERS (1) Intl. Bus. Comms., PAPERS (2) Enso-Gutzeit, Tinsley Robor., PROPERTY (4) Mountleigh, Do. 5¾pc Pf., UK Land, Waterglade Intl., TRANSPORT (1) Seafield, TRUSTS (2) Multitrust, Shires Inv. 11pc Ln., Slam Fd., MINES (1) Elders Res., THIRD MARKET (3) Blackland Oil, Kromographic, Royal Sovereign.

APPOINTMENTS

New deputy chairman for MAI

■ Sir Graham Day, chairman and chief executive of the Rover Group, has been appointed deputy chairman of MAI. He was appointed a non-executive director in October 1988.

■ COUNTY NATWEST has appointed Mr Brian Meddings and Mr Kevin Wilson as local directors responsible for the newly formed corporate finance teams in Birmingham and Manchester respectively. Mr Meddings joins from Lloyds Merchant Bank, Birmingham. Mr Wilson was formerly responsible for corporate finance at stockbrokers, Charlton Seal Schaverien.

■ Three appointments have been made to the board of SMITH NEW COURT, the independant securities house: Mr Nicholas Holt, legal adviser, becomes legal and compliance director; Mr Philip Kay, head of Smith's Far East stockbroking division, and Mr Robert Timms, formerly head of human resources in Europe for Chase Manhattan, also join the board.

■ Mr Iain Hope, deputy chairman of Alexander Stenhouse UK, has been elected chairman of the AMERICA-EUROPEAN COMMUNITY ASSOCIATION.

Mr Jeremy del Strother *(above)* has beeu appointed general manager, estates, by NATIONWIDE ANGLIA BUILDING SOCIETY. He will also be responsible for the society's administrative centres at Northampton and Swindon and other functions involving major capital expenditure.

■ Mr David Hopkins, treasurer of Westminster, has been elected president of the CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY. Mr Cliff Nicholson is vice president and Mr John Patrick honorary treasurer.

■ Mr Colin Davenport has been appointed chief executive of BURNS ANDERSON's Manchester-based banking subsidiaries, Burns Anderson Trust and Burns Anderson Trade Finance. He was previously the senior manager of the regional office in Manchester of Algemene Bank Nederland.

■ Mr Nick Young has joined LADA CARS as financial director. He was previously with Ernst & Young.

■ BSS INVESTMENT MANAGEMENT has appointed Mr Edward Hart as managing director. BSS Investment Management is a wholly-owned subsidiary of Banque Scandinave en Suisse, Geneva.

■ BRITISH ALCAN ALUMINIUM has appointed Mr Jacques Bougie to its board of directors. He is president and chief operating officer of British Alcan's parent company, Alcan Aluminium, based in Montreal.

■ ELGA GROUP, the High Wycombe based water specialist, has appointed Mr Keith S. Rippington to the board of directors. He is sales and marketing director of the laboratory division.

■ ARAN ENERGY has made Mr Archie R. Thompson president of its wholly-owned US subsidiary Aran Energy Corporation, based in Houston, Texas.

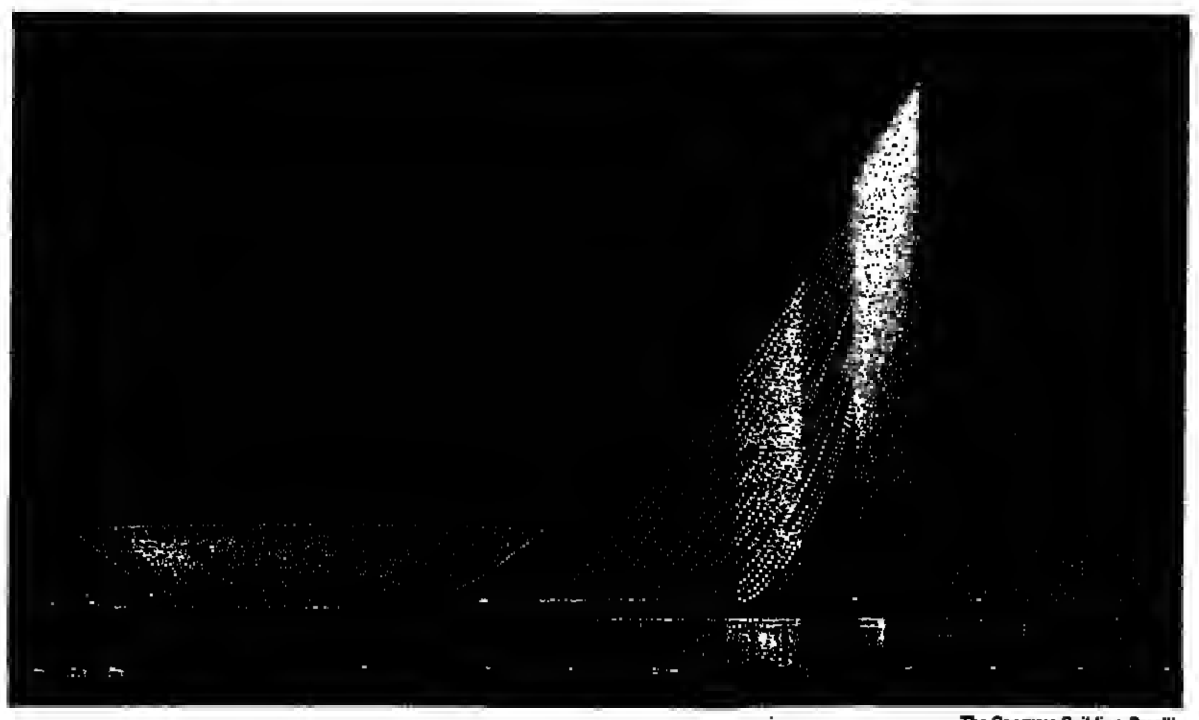
■ Mr Robin Potter has been appointed technical director for MERCURY PERSONAL COMMUNICATIONS NETWORK, the Cable & Wireless led consortium with Motorola of the US and Telefonica of Spain, which subject to receiving a Government licence, will operate one of the next generation of mobile phone networks in the early 1990's. He was previously divisional manager of British Telecom Research Laboratories at Martlesham in Suffolk.

SYMBOL TECHNOLOGIES has appointed Mr Tomo Razmilovic *(above)* chairman and managing director of Symbol Technologies Europe. He was president and chief executive of the Stockholm-based Cominvest Group, an international high-technology company.

■ Mr Roger Urwin, formerly director of strategy at Gartmore, is to become a partner of R. WATSON & SONS on November 16.

■ Mr Robert Bradley has been made construction director of WILMOTT DIXON DESIGN AND BUILD.

VISA AS EASY TO USE ABROAD AS AT HOME



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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♦ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust information pages.

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Waverley Unit Tst Mngmt Ltd (1000)F						
13 Charlotte Sq, Edinburgh 031-225 1551						
Australasian Gold	5	15.94	13.94	16.95	+0.05	0.00
Pacific Basin	5	30.09	30.09	32.01	-0.36	0.60
Can Balncd Gwth ‡	5	49.74	49.74	52.91	-1.28	0.10
Ginnie Mae ‡	4	0.9764	0.9764	1.0170	+0.17	7.67
Penny Share	5¼	27.84	27.84	29.61	-0.44	0.50
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4404						
Wellington Income	5¼	131.7	133.3xd	141.7	-0.8	5.34
Wellington Growth	5¼	213.9	215.8xd	229.6	-2.9	1.36
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 290432						
Wessex UK Gwth	4½	103.8	107.5	112.0	-1.7	3.12
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger ‡ F	2¼	60.03	60.03	61.58	----	8.27
Short Dtd Gilt ‡ F	1¼	81.50	81.50	82.60	----	8.89
U.S. Govmt Bond ‡ F	1¼	0.5751	.5751	.5827	----	0.00
Willbro Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars W'wide	5	187.3	189.6	201.7	-1.1	2.62
Windsor Trust Mngrs Ltd (1200)F						
83 Kingsway, London, WC2B 6SD 01-405 8331						
Convtbl & Equity	5	60.03	61.39	65.30	-0.02	7.24
European	5	74.98	75.35	80.15	-1.30	2.10
Far Eastern	5	63.63	66.41	70.64	-1.21	0.62
Growth Inc	5	76.87	80.20xd	85.31	-0.54	1.58
Growth Acc	5	76.95	80.27xd	85.39	-0.53	1.58
Income Inc	5	72.65	75.82xd	80.66	-1.05	5.27
Income Acc	5	72.76	75.92xd	80.77	-1.05	5.26
Property Share	5	47.63	47.63	50.77	-0.47	1.12
Smaller Co's	5	49.69	49.69xd	52.97	+0.36	1.79
Nth American	6	62.23	62.23	66.59	-1.30	2.63
International	5	48.36	48.36	51.72	-1.42	1.44
Asset Value	5	153.64	153.64	164.32	-2.00	4.43
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Intl Growth	5	110.55	110.55	116.37	+1.22	4.03
UK Growth	5	90.35	90.35	95.10	+0.36	3.15
UK Income	5	93.11	93.11	98.01	-0.25	4.59
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250						
Yorkshire General	5¼	56.22	56.22	62.09	-0.48	2.90
YUTM GG Eqty Inc Fd	5¼	55.39	55.39xd	60.46	-0.40	4.94
YUTM Intl Gwth Fd	5¼	55.54	55.54xd	59.27	-0.16	0.75

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gr's
Baillie Gifford & Co Ltd				
Int'l Expl Oct 4	560.4	561.9	----	0.67
Cent. Bd. of Fin. of Church of England‡‡				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Inv Fund Sept 30	541.15		----	4.71
Fxd Int Sec Sept 30	138.15		----	10.35
Deposit Sept 30	100.00		----	13.61
Charinco/Charishares (1000)F				
33 King William Street, EC4R 9AS 01-280 2800				
C'inco Inc Oct 25	162.3	166.5	+1.30	9.86
C'inco Acc Oct 25	682.3	700.2	+5.70	9.86
C'share Inc Oct 25	149.5	155.4	-0.10	3.76
C'share Acc Oct 25	165.5	172.0	-0.10	3.76
Charities Official Invest. Fund‡‡				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Income Sept 30	517.27		----	4.95
Accum Sept 30	2750.42		----	-
Edinburgh Fund Mngrs PLC				

INSURANCES

Continued on next page

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	Bid Price	Offer Price	+ or -	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	123.0	130.0	+1.0	-
Building Soc. Fd	176.0	186.0	.....	-
Balanced	276.0	291.0	-1.0	-
European	184.0	194.0	-3.0	-
GT Managed	184.0	194.0	-3.0	-
Gartmore Mngd	127.0	134.0	.....	-
German	142.0	150.0	-1.0	-
Gilt	176.0	186.0	+1.0	-
Global	49.0	52.0	.....	-
High Inc	108.0	114.0	.....	-
International Equity	191.0	202.0	-2.0	-
Japan	269.0	284.0	-2.0	-
Managed	56.0	59.0	-1.0	-
Property	294.0	310.0	.....	-
R. W. Imperial Gold	148.0	156.0	.....	-
UU Equity	318.0	335.0	-3.0	-
Pension Funds				
American	155.0	164.0	.....	-
Building Soc. Fd	179.0	189.0	.....	-
Balanced	218.0	230.0	.....	-
European	191.0	202.0	.....	-
German	126.0	133.0	.....	-
Gilt	153.0	162.0	.....	-
International Equity	143.0	151.0	.....	-
Japan	148.0	156.0	.....	-
Managed	62.0	66.0	.....	-
Property	225.0	237.0	.....	-
UK Equity	304.0	320.0	-2.0	-
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton. 0703 232323				
Pension Managed Fund	91.83	97.08	.....	-
Pensions Cash Fund	80.90	85.24	.....	-
Prolific Life & Pensions Ltd				
Strawmongate, Kendall, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Gwth Mngd	595.6	627.7	-7.2	-
Adventurous Mngd	128.9	135.9	-1.7	-
Secure Mngd	109.5	115.4	-0.8	-
Cash Fd	240.0	252.9	.....	-
Property Fund	297.7	313.8	.....	-
Equity Fund	670.0	706.1	-10.5	-
Fxd Int. Fund	293.9	309.7	-0.5	-
International	320.1	340.6	-5.6	-
High Income	440.3	468.5	-6.9	-
Far East	433.1	460.8	-8.3	-
[illegible]				

	Bid Price	Offer Price	+ or -	Yield Gross
Prudential Holborn Pensions Ltd—Contd.				
International Money	209.0	220.1	-0.3	-
North American	78.9	83.1	-0.6	-
Japanese	157.4	165.7	-0.4	-
European	106.0	111.6	-1.1	-
Special Situations	108.4	114.2	-1.6	-
Communications	102.8	108.3	-0.2	-
Smaller Companies	103.2	108.7	-0.6	-
International Small Cos.	141.4	148.9	-1.9	-
Prudential Pensions Limited				
Holborn Bars, London EC1N 2NH 01-548 3281				
Discretionary Oct 11	£165.36	170.61	.....	-
Equity Oct 11	£275.82	182.28	.....	-
International Oct 11	£30.19	30.86	.....	-
Intl Bond Oct 11	£12.88	13.05	.....	-
Fixed Int Oct 11	£73.27	74.08	.....	-
Index Linked Oct 11	£62.51	63.28	.....	-
Property Oct 11	£116.37	123.22	.....	-
Cash Oct 11	£21.7821	21.7821	.....	-
Pru-Linked Retirement Plan				
Managed Oct 24	386.0	402.1	+10.1	-
Cash Oct 24	205.6	214.2	+0.6	-
Prudential Pensions Investment Account				
Pens Mngd Oct 25	154.9	164.5	+1.7	-
Pens UU Eq Oct 25	286.0	308.3	+4.3	-
Pens Intl Oct 25	197.9	213.0	+2.3	-
Pens Fixed Oct 25	170.1	179.5	+0.8	-
Pens Index Lk Oct 25	160.1	168.9	+0.6	-
Pens Cash Oct 25	134.2	141.4	+0.4	-
Regency Life Assurance Co Ltd				
Regency Hse, Lanark Sq, London E14 9XS 01-538 8800				
Aggressive Pf/lio Fd	118.4	124.6	-0.8	-
Balanced Pf/lio Fd	308.8	325.0	-2.0	-
Cautious Pf/lio Fd	122.0	128.4	-0.1	-
Elite Fund	106.5	112.0	-1.2	-
European Fund	92.9	97.7	-0.4	-
Far East Fund	110.2	115.9	-0.5	-
Fixed Interest Fund	242.3	255.6	+0.5	-
International Fund	289.2	304.4	-2.0	-
Money Fund	181.4	190.9	.....	-
N. American Fd	125.0	131.5	-1.5	-
Property Fund	389.4	409.8	-1.6	-
UK Equity Fd	366.0	385.2	-3.8	-
A.I.M. Brewin Dlphn Fd	98.6	103.8	-0.5	-
Swim Select Invs	115.8	121.9	-0.5	-
Chart Safety First Bd	106.0	111.6	.....	-
Exec Master Fd	101.8	107.2	.....	-
Hardwick Growth Fd	112.4	118.3	-0.1	-
[illegible]				

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OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

[illegible]

MANAGEMENT SERVICES

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

IoM (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

GUERNSEY (**)

[illegible]

JERSEY (**)

[illegible]

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
100	98	Exch 10¼pcCv '89	100	.....	–	–
101	99½	Treas 13pc 1990‡‡	99	+	13.05	14.13
133	124	Treas 2pc IL '90(84.6)	133	+	2.09	9.98
99	98	Exch 11pc 1990‡‡	99	.....	11.10	13.70
101	99	Exch. 12½pc 1990	99	.....	12.57	15.94
95	91	Treas. 3pc 1990	95	.....	3.12	10.94
97	95	Treas 8¼pc 1987-90‡‡	97	+	8.50	13.17
98	95¼	Treas. 8pc Cv 1990 ‡‡	96	+	8.28	12.96
98	96	Treas. 10pcCv 1990	97	.....	10.30	13.17
93	87	Exch 2½pc 1990	93	+	2.69	9.65
101	98	Treas 11¾pc 1991	98	+	11.89	12.79
93	89	Funding 5¾pc '87-91‡‡	92	+	6.19	11.24
90	86	Treas. 3pc 1991	90	+	3.30	9.54
100	95	Treas 10pc Cv '91 ‡‡	96	+	10.36	12.30
101	96	Exch. 11pc 1991	98	+	11.22	12.14
94	91	Treas. 8pc 1991	92	+	8.65	12.13
106	100	Treas 12¾pc 1992‡‡	102	+	12.47	11.55
99	95	Treas 10pc 1992	96	+	10.35	11.65
94	90	Treas. 8pc 1992 ‡‡	92	+	8.66	11.63
100	96	Treas 10½pc Cv 1992‡‡	97	+	10.73	11.50
85	82	Treas. 3pc 1992	84	+	3.55	9.00
105	100	Exch. 12¼pc '92	101	+	12.04	11.48
109	103	Exch 13½pc 1992	105	+	12.84	11.36
94	90	Treas 8¼pc 1993	91	+	8.98	11.21
100	95	Treas 10pc 1993‡‡	96	+	10.32	11.09
108	102	Treas 12½pc 1993‡‡	104	+	12.00	11.08
88	84	Funding 6pc 1993‡‡	87	+	6.87	10.01
113	107	Treas 13¾pc 1993‡‡	108	+	12.63	10.99
94	89	Treas. 8½pc 1994	91	+	9.29	11.01
117	111	Treas 14½pc 1994‡‡	112	+	12.89	10.82
113	107	Exch 13½pc 1994	108	+	12.41	10.96

Five to Fifteen Years

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1989: 111.8 and for September 1989: 116.6.

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
99	98	N'wide Anglia 11pc 6.11.89	99	.....	11.83	15.98
100	98	Do. 12pc 4.12.89	99	.....	12.38	15.79
100	99	Do. 12pc 2.1.90	99	.....	12.90	15.56
100	98	Do. 12pc 29.1.90	99	.....	12.68	15.40
100	98	Do. 12pc 26.2.90	98	.....	12.82	15.34
100	98	Do. 12pc 19.3.90	99	.....	12.99	15.18
100	99	Do. 13pc 23.4.90	99	.....	13.48	15.06
100	98	Do. 13pc 14.5.90	99	.....	13.12	15.01
100	98	Do. 13pc 4/6/90	99	.....	13.80	14.96
100	99	Do. 14pc 2.7.90	99	.....	14.38	14.91
100	98	Do. 13pc 23.7.90	99	.....	13.76	14.89
100	98	Do. 15pc 13.8.90	90	.....	15.59	14.84
107	98½	Do. 3pc IL Ln 2021	106	+	4.21	4.30

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
47	43	Met. Wtr. 3pc 'B'	46	.....	6.52	10.62

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
45	40	Greek 7pc Ass.	40	.....	3.50	f8.75
45	40	Do. 6pc 28 Stb. Ass.	40	.....	3	f7.50
45	40	Do 4pc Mixed Ass.	40	.....	2	f5.00
80	65	Hung. '24 Ass.	80	.....	2.75	f3.57
139	128	Hydro Quebec 15pc 2011.	130	+	15.00	11.20
128	118	Iceland 14½pc Ln 2016	122	+	14.50	11.73
97	91½	Ireland 9¾pc '91-96	92	+½	9.75	11.40

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

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AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39½	18¾	Gillette $1	28⅞	–⅞	96c	–	2.2
987p	590p	Gt American Bank Bk $1	598p	–29	20c	–	2.1
23⅞	16⅞	Greyhound $1½	19¼	–⅝	$1.32	–	4.3
14⅝	847p	Hasbro Inc 50c	14	–⅛	16c	–	0.7
57½	32¾	Honeywell $1½	50⅞xd	–⅛	$2.10	–	2.6
22⅝	15⅛	Houston Inds.‖	21½	+⅛	$2.96	–	8.7
76⅞	62⅞	IBM Corpn $1¼	63⅞xd	–⅞	$4.84	–	4.8
60p	45p	♥Image Storage/R.Sys.1c	52p	.....		–	–
32¼	18¾	Ingersoll-Rand $2	27½xd	–1¼	$1.20	–	2.8
33¼	22½	Lockheed Crpn. $1	27⅞xd	–⅛	$1.80	–	4.2
22⅝	15⅞	Lone Star Inds $1	17⅛xd	–½	$1.90	–	7.0
27⅞	17½	Louisiana Land 15c	24xd	–⅛	$1.00	–	2.6
20⅛	11½	Lowe's 50c	18⅝	.....	48c	–	1.6
28⅞	15⅞	Manuf. Hanover $1	24⅞	–⅛	$3.28	–	8.6
22⅝	13⅞	Merrill Lynch $1	17⅞	–⅝	$1.00	–	3.6
2477p	1910p	Molex Inc	2332p	–29	3.2c	–	–
30⅜	18⅛	Morgan (JP) $2½	27⅛xd	.....	$1.66	–	3.8
28⅞	24⅛	Morris (Philip)	27⅞xd	+⅞	$1.13	–	2.6
54½	36⅛	NYNEX $1	49	–⅝	$4.36	–	5.6
44p	20p	N'wide Legal Serv.‖	27p	.....		–	–
24⅞	18¼	PHH Corp. ‖	22⅛	–⅛	$1.12	–	3.2
259p	179p	♥Pacific Agr.‖	190p	.....		–	–
27¼	19	Pacificorp $3¼	25⅛xd	–⅛	$2.76	–	6.3
30¼	16⅞	Pacific Telesis 10c	27⅝	–⅝	$1.88	–	4.3
22⅞	15¼	Pall Corp 25c	21	–⅛	48c	–	1.4
55⅝	39⅞	Pennzoil 83 1/3c	48⅛xd	–1	$3.00	–	3.9
42¼	28⅛	Quaker Oats $5	38⅞	–⅛	$1.20	–	2.0
32⅛	23½	Rep NY Corpn $5	29⅞xd	–⅞	$1.28	–	2.7
16¾	11⅞	Rockwell Intl $1	16⅛xd	+1½	78c	–	2.9
29½	22	Sears, Roebuck 75c	25⅞	+⅞	$2.00	–	5.0
37½	21⅝	Southwestern Bell $1	36	+⅛	$2.60	–	4.6
27⅞	17⅞	Sun Co Inc. $1	24⅛xd	–⅝	$1.80	–	4.7
31¼	22⅞	TRW Inc 62½c	29⅛	–⅝	$1.72	–	3.7
24⅞	14⅝	TW Services $5	20⅛	–⅝	10c	–	0.3
40⅞	26⅛	Tenneco $5	35⅝	–1⅛	$3.04	–	5.4
35⅞	28	Texaco $6.25	31⅞xd	–⅞	$3.00	–	5.9
28⅞	20¼	Texas Instr. $1	20⅛xd	–⅝	72c	–	2.2
117⅞	58⅝	Time Inc. $1	85½	–⅛	$1.00	–	0.7
19⅝	14⅞	TRINOVA Corp.	14⅞	–⅛	s68c	–	2.9
26⅜	16	USX $1	20⅞xd	–⅞	$1.40	–	4.2
321p	126p	♥Unilab	288p	.....		–	–
36⅝	22⅛	Utd Technologies	33⅛xd	–⅞	$1.60	–	3.0
158p	121p	♥Utilitech Inc.	121p	.....		–	–
48¼	31½	US West‖	43⅛	–⅛	$3.76	–	5.3
43⅛	22⅝	Waste Management $1	39⅛xd	–½	60c	–	1.0
20½	13½	Whirlpool $1	17	–⅛	$1.10	–	4.1
24⅛	16⅞	Whitman Corp.	18⅛	–⅛	$1.02	–	3.5
46⅝	28⅛	♥Woolworth $3½	35⅞	–2	$1.88	–	3.3

CANADIANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
178p	129p	♥ABM Gold Corp ‖	159p	+5		–	3.2
36p	4½p	♥Abbot Energy Corp.	25p	.....		–	–
16½	902p	♥Amer Barrick Res.	15⅛	.....		–	–
28p	10½p	♥Armeno	16p	+1		–	–
33¼p	8½p	♥Augmitto Expln.	14½p	+⅞		–	–
18⅝	12⅞	Bk. Montreal ‖	17⅞	+⅛	$2.[illegible]	–	6.5
10⅛	655p	Bk. Nova Scot.‖	889pxd	–12	[illegible]	–	3.6
821p	599p	♥BC Gas $1	789p	–14	[illegible]	–	4.1
23½	17	BCE ‖	22⅛	–⅛	$2.[illegible]	–	5.9
17	12⅛	♥Brascan‖	15⅛	–⅛	[illegible]	–	3.1
228p	108p	♥Breakwater Res.	151p	–6	[illegible]	–	4.1
17⅝	11⅛	Can.Imp Bank‖	16⅞	.....	$1.[illegible]	–	–
15¼	997p	Can. Pacific ‖	13⅛	.....	[illegible]	–	3.0
41½	38	Do. 4pc Deb £100	38	.....	4%	–	10.5
588p	374p	Central Capital "A" ‖	517p	–12		–	–
499p	340p	♥Corona Corp.	424p	–18		–	–
382p	228p	♥Cons TVX Min.	338p	–3		–	–
775p	506p	♥Derlan Inds. ‖	510p	–5	11.75c	–	1.3
10⅛	751p	♥Echo Bay Mines	888p	+18	$0.07	–	0.4
572p	336p	♥ECO Corp ‖	386p	–2		–	–
236p	159p	♥Galactic Resources	162p	–1		–	–
417p	243p	Gandalf Techs. Inc.	369p	–16		–	–
186p	125p	Granges Inc. ‖	125p	–3½		–	–
27⅞p	5¼p	♥Gt. Pacific Res.	5½p	.....		–	–
903p	651p	♥Gulf Canada‖	856p	–18	52c	–	–
15	10¼	♥Hawker Sid Can‖	15⅞	–⅛	$1.08	–	–
		For Henlys see Sechura Inc.					
20½	11⅞	♥Hudson's Bay ‖	10⅝	.....	60c	–	1.7
34⅝	23	♥Imperial Oil‖	32⅛	–⅝	$1.80	–	3.0
23⅞	14⅛	Inco‖	10⅞	–⅝	s$0.80	–	2.7
290p	102p	♥Madeleine Mines	172p	–2		–	–
193p	106p	♥Muscocho Expln.	106p	–6		–	–
126p	60½p	♥Nevada Goldfields	72p	–5½		–	–
593p	456p	Nova Corp of Alberta	466pxd	+5	42c	–	4.9
14½	10⅞	♥Rio Algom	15⅞	–⅛	85c	–	5.4
26¼	17¼	Royal Bk. Can. ‖	25xd	.....	$2.20	–	4.8
47⅞	33⅞	Seagram‖	52⅛	–⅞	US$1.40	–	1.7
700p	348p	♥Sechura Inc.	590p	–6		–	–
112p	73p	♥Sonora Gold Corp‖	90p	–1		–	–
109p	36p	♥Tam Pure Tech. Corp‖	36p	–7		–	–
12⅛	806p	Toronto-Dom. Bk‖	11⅛	.....	76c	–	3.6
944p	686p	♥Trans Can Pipe	916p	–11	68c	–	4.0
184p	140p	Varity Corp‖	146p	–1	8	–	–

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

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LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING — Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES — Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND — Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES — Contd

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◊ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]

IRISH

[illegible]

TRADITIONAL OPTIONS

3-month call rates

Industrials

[illegible]

Property

[illegible]

Oils

[illegible]

Mines

[illegible]

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar closes above DM1.84

THE DOLLAR and sterling continued to recover from setbacks on Tuesday caused by a *sudden weakening of Wall* Street and initial reaction to the September UK trade figures. At the close of trading in London yesterday, the dollar had climbed back above DM1.84, supported by the stability of prices on Wall Street. A firmer tone to share prices in London helped underpin the *pound.*

There were no fresh factors. Trading was thin and nervous, as *dealers cast a watchful* eye on the eqoity markets. Another selloff on Wall Street was feared, hnt when this failed to materialise the dollar moved up to finish in Europe around the top of a narrow trading range.

Technical support at DM1.84 has been tested several times this week, *but has not* yet been broken. Today's announcement of third quarter US Gross National Product growth may provide another test of this level, if the figure is helow forecasts of around 2.2 to 2.3 per cent. Growth in the second quarter was 2.5 per cent.

Mr Alan Greenspan, chair*man of the* US Federal Reserve Board, spoke before a Congressional banking sub-committee, but his comments had little impact on the foreign exchanges. He said that inflation could be reduced from the present level of about 4.5 per cent without pushing the US economy into recession, and spoke of achieving zero inflation over a five-year period.

Demand from institutional investors continued to buoy a dollar suffering from underlying bearish *sentiment. Institutions* appear to be prepared to buy the US currency on the dips, but if the GNP figure is weak today it will renew speculation about an easing of the Fed's monetary stance. Upward potential for the dollar will then be even more limited against a background of a *slowing* US economy and nervousness on Wall Street. If the DM1.84 level is broken the next strong support level is around DM1.8250, and dealers suggested that further downward pressure could soon push *the currency through DM1.80.*

At the close in London the dollar had climbed to DM1.8405 from DM1.8390; to Y141.60 from Y141.55; and to FFr6.2525 from FFr6.2475, but had eased to SFr1.6115 from SFr1.6120. On Bank of England figures the dollar's index fell to 69.3 from 69.4.

Sterling kept a steady to firm tone throughout the day, in spite of an undercurrent of concern about the UK economy. Dealers said the UK trade deficit remained worrying, and there was also concern at a pessimistic survey on business confidence hy the Confederation of British Industry.

The pound rose 30 points to $1.6095, while improving to DM2.9625 from DM2.9550; to Y228.00 from Y227.50; to SFr2.5925 from SFr2.5900; and *to FFr10.0625 from FFr10.0375.* Sterling's index rose 0.3 *to* 90.1.

Pressure continued to ease in the European Monetary System. The Belgian franc fell below the Italian lira as the second weakest currency, hut *all mambers of the system,* including the lowest placed Danish krone, remained within cross rate limits against the strong D-Mark.

£ IN NEW YORK

Oct.25	Latest	Previous Close
£ Spot	1.6075-1.6085	1.6055-1.6065
1 month	0.84-0.83pm	0.885-0.87pm
3 months	2.39-2.36pm	2.50-2.48pm
12 months	8.38-8.28pm	8.65-8.58pm

Forward premiums and discounts apply to the US dollar

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct.25	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1515	+1.63	+1.02	±1.5424
Danish Krone	7.85212	8.00151	+1.90	+1.29	±1.6419
German D-Mark	2.05853	2.05501	-0.17	-0.78	±1.1019
French Franc	6.90403	6.98223	+1.13	+0.52	±1.3719
Dutch Guilder	2.31943	2.32029	+0.04	-0.57	±1.5019
Irish Punt	0.768411	0.772425	+0.52	-0.09	±1.6689
Italian Lira	1483.58	1507.88	+1.64	+1.54	±4.0815
Spanish Peseta	133.804	131.063	-2.05	-2.00	-

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

[illegible]

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

CURRENCY RATES

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

CURRENCY MOVEMENTS

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

OTHER CURRENCIES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

[illegible]

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MONEY MARKETS

London rates steady

INTEREST RATES were little changed on the London money market yesterday. The Bank of England made sure very short term rates remained firm, as the market continued to watch a nervous equity market in London. Three-month sterling interbank finished at 15⅛-15 per cent compared with 15⅜-15¼ per cent on Tuesday.

Short sterling moved within a very narrow range on Liffe, *closing at 85.49 for December* delivery, against 85.50 previously.

The Bank of England initially forecast a money market credit shortage of £450m, but revised this to £400m at noon, and to £350m in the afternoon. Total help of £279m was provided.

UK clearing bank base lending rate 15 per cent from October 5

Before lunch the authorities bought £183m bills, by way of £126m bank bills in band 1 at 14⅞ per cent; £10m Treasury bills in band 2 at 14¾ per cent; and £47m bank bills in band 2 at 14¾ per cent. In the afternoon the Bank bought another £7m bank bills in band 1 at 14⅞ per cent and £79m bank bills in band 2 at 14¾ per cent. Late assistance of around £10m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-np of Treasury bills drained £738m, with a rise in the note circulation absorhing £95m. These outweighed Exchequer transactions adding £230m to liquidity and bank balances below target of £140m.

In Frankfurt the Bundesbank injected only a small amount of additional liquidity *at this week's securities* repurchase agreement tender. Call money eased slightly to 7.85 per cent from 7.90 per cent, but the central bank did not fulfil market hopes that it might add an extra DM3bn at the tender.

Liquidity was increased by a mere DM200m, as the Bundesbank accepted bids of DM9.6bn *for 28-day* funds, at a fixed 7.30 per cent, against an *expiring* pact of DM9.4bn. Banks had hoped for a generous allocation at the tender to pay back an estimated DM3bn borrowed directly form the Bundesbank on Monday and last Friday.

Banks' holdings of reserves at the Bundesbank rose to *DM53bn from DM44.7bn* on Friday, boosted by the money borrowed from the central bank and *also by redemption of* about DM5bn on Government paper. However, the market was looking for additional funds to meet the average requirement of a likely DM55.9bn for the month.

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

[illegible]

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JOTTER PAD

CROSSWORD

No.7,073 Set by VIXEN

ACROSS

1 Taking a break from work quietly – in real discomfort (8)
5 Free with money (6)
9 Reels out, unsteady but dogged (8)
10 Poles having to live in vehicles (6)
12 Joy is a musician (5)
13 Game beauty taking a gun (9)
14 Ruthless though judicious – keeping a few (6)
16 Set up before caught by Edward (7)
19 Church leader giving copper report (7)
21 Plan a camping holiday? (6)
23 Financial expert effecting some difference to incomes (9)
25 Writing about the first woman magistrate (5)
26 Putting press in charge is incongruous (6)
27 Invite possibly about a hundred unemployed (8)
28 Eastern airway's affairs (6)
29 Army personnel, proficient yet withdrawn (8)

DOWN

1 The way to dress for discotheque lighting (6)
2 Pig-headed beast – into convulsion (9)
3 Left surrounded by young stars, gets quite soft (6)
4 A VIP turning on the board (7)
6 Meant, perhaps to retain some rooms (9)
7 Superior American roller (5)
8 Wrong-doing girl lies about title (8)
11 No Green party would have such a monster in (4)
15 Articles to fog a man of science (8)
17 Places of work – orders are sent in (9)
18 There's little in copy to give rise to enthusiasm (8)
20 Discharge date is coming up (6)
21 In double figures, note, and that's great (7)
22 Kept an eye on the male sovereign in bed (6)
24 Ring the sector supplying the gas (5)
25 Feel some regret about the church decoration (5)

Solution to Puzzle No.7,072

[illegible]

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Oct 24	Oct 23	Oct 20	Oct 19	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2659.22	2662.91	2689.14	2683.20	2791.41 2 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	92.82	92.73	92.76	92.68	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1210.70	1236.91	1230.80	1263.51	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.04	215.35	215.48	215.42	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2680.74 (2704.71) Low 2570.29 (2648.77)

STANDARD AND POOR'S	Oct 24	Oct 23	Oct 20	Oct 19	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	343.70	344.83	347.16	347.13	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	392.85	393.58	396.30	396.57	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	33.05	33.36	33.68	33.55	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	190.05	190.90	192.12	192.17	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	376.36	379.46	382.57	382.81	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	461.70	467.22	470.67	470.80	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Oct 20	Oct 13	Oct 6	year ago (approx.)
Dow Industrial Div. Yield	3.83	4.01	3.62	3.63

	Oct 18	Oct 11	Oct 4	year ago (approx.)
S & P Industrial div. yield	2.95	2.82	2.82	3.19
S & P Indl. P/E ratio	14.28	14.91	14.90	13.03

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Security Pacif	4,811,200	44¾	− ⅜
UAL	4,915,600	170	− 8⅝
Nipsco Inds	4,419,900	17⅞	− ⅜
Philip Morris	3,089,800	44½	+ ⅜
Phillips Pet	2,920,700	23⅝	+ ½
Chase Manhattan	2,737,700	38⅞	− ⅞
McDonald's	2,473,000	32¾	+ 1⅛
Bristol Myers	2,472,400	52¼	− ⅛
AT&T	2,360,400	43⅛	+ ⅜
BankAmerica	2,316,500	29½	− 1¼

TRADING ACTIVITY

† Volume (Millions)	Oct 24	Oct 23	Oct 20
New York	237.960	135.061	164.803
Amex	14.526	10.155	10.638
NASDAQ	152.478	117.175	158.158
Issues Traded	1,954	1958	1,948
Rises	368	503	662
Falls	1,213	985	809
Unchanged	381	470	477
New Highs	15	17	32
New Lows	79	38	28

CANADA

TORONTO	Oct 24	Oct 23	Oct 20	Oct 19	1989 HIGH	1989 LOW
Metals & Minerals	3499.41	3470.3	3542.70	3587.98	3919.2 (1/9)	3207.5 (3/1)
Composite	3899.13	3912.15	3954.79	3969.66	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2001.78	2003.47	2025.09	2034.55	2069.68(10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 25	Oct 24	Oct 23	Oct. 20	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1633.5	1649.1	1668.1	1673.8	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	780.4	790.7	801.6	805.6	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	464.44	473.56	470.62	471.62	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6460.42	6563.53	6560.79	6555.74	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	338.55	340.96	341.65	342.08	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	660.8	660.9	669.3	673.2	815.8 (18/4)	666.0 (16/10)
FRANCE						
CAC General (31/12/82)	521.6	530.7	527.7	533.8	561.6 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	117.8	120.0	120.7	120.5	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	624.76	635.79	639.5	645.3	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	1856.3	1890.5	1900.4	1905.8	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1481.08	1507.37	1523.22	1524.21	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2706.60	2731.97	2732.17	2703.95	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1723.38	1731.63	1739.38	1748.95	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	645.61	652.43	661.47	663.47	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	35442.40	35526.55	35585.52	35486.38	35689.98 (28/9)	30183.79 (3/1)
Tokyo SE (Topix) (4/1/68)	2672.57	2681.22	2687.53	2679.72	2703.58 (2/10)	2366.91 (6/1)
2nd Section (4/1/68)	3713.75	3737.95	3734.57	3717.46	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	253.3	252.7	260.0	258.3	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	194.7	194.3	199.9	198.6	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	626.32	641.48	649.93	651.75	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1275.18	1287.69	1283.89	1259.94	1288.62 (13/10)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1333.25	1368.42	1365.02	1345.60	1431.85 (12/10)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1540.0	1523.0	1511.0	1519.0	1710.0 (27/9)	1291.0 (15/2)
JSE Industrial (28/9/78)	2535.0	2537.0	2526.0	2513.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	898.36	903.50	891.30	903.29	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	309.31	313.18	314.55	314.83	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4239.62	4292.11	4326.06	4359.89	4460.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	757.8	770.0	783.8	784.5	829.1 (6/9)	613.1 (3/1)
TAIWAN**						
Weighted Price (30/6/66)	(c)	10236.01	10108.24	10161.99	10773.11 (25/9)	4873.01 (3/1)
THAILAND						
Bangkok SET (30/4/75)	686.97	691.19	(c)	682.44	724.93 (13/9)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	533.4	534.9	535.2	551.2 (3/8)	487.6 (13/6)

**Saturday Oct.21: Taiwan Weighted Price: 10130.36. Korea Comp Ex. 886.00.
‡ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Wednesday October 25 1989

	Stocks Traded	Closing Prices	Change on day
Mitsui Fi Ent	61.0m	3,110	+230
Tokyu	58.0m	2,550	-10
Nippon Express	26.9m	1,820	+60
Yasuda F&M	21.6m	1,590	+110
Kajima	20.5m	2,300	+140
JDC Corp	19.5m	1,440	+90
Sekisui House	17.6m	2,640	-70
Odakyu Rlwys	17.4m	1,920	-70
Nippon F&M	16.3m	1,860	+60
Ohbayashi	14.1m	1,770	+40

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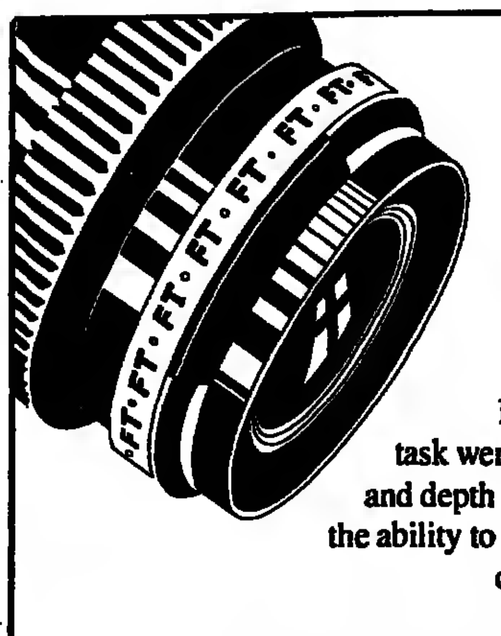

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3pm prices October 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37⅛	21¼	AAR	.48	1.3	22	114	36½	36	36¼	-¼
9⅝	8⅛	ACM n	1.01	11		233	9⅛	9⅛	9⅛	-⅛
11⅜	10¼	ACMIn	1.26a	11		446	11½	11⅜	11½	
10⅛	8	ACM M	n1.01	12		387	8⅞	8⅝	8⅝	
11½	10	ACM Sc	1.26	11		210	11⅜	11¼	11¼	⅛
9¼	8⅜	ACMSp	1.01	11		328	9⅛	9	9	⅛
18	11½	AL Lab	.12	.8	17	115	16	15¾	16	
4⅛	3⅛	AMCA	.12e	3.4	23	70	3½	3½	3½	
8⅝	4½	AM Intl			11	971	5¼	4⅞	5	+¼
23½	20⅝	AM In pf	2	9.1		28	22¼	22	22	
107¼	48½	AMR			6	8584	72¼	57½	72⅛	+3½
7¼	3⅝	ARX				185	4¼	2⅞	2⅞	-⅛
46⅞	37¼	ASA	3a	6.8		1257	44	43¼	44	+⅛
30¼	15¼	AVX	.24	.9	13	598	26⅞	26⅜	26⅝	-¼
68½	44⅛	AbtLab	1.40	2.1	18	1940	67	66⅛	66⅝	-⅛
18¼	13	Abitibi g	1			52	13⅛	13	13	
13	7½	AcmeC	.40	3.9		36	10½	10⅜	10⅜	
9¼	5⅝	AcmeE	.32	3.7	10	1	8⅝	8⅝	8⅝	+⅛
38½	20¼	Acuson			25	209	26	25¼	25⅛	+⅛
11	14¼	AdaEx	1.82e	11		127	16⅛	16⅛	16¼	-⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Rothmans
The Original King Size

Continued on Page 39

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
4¾	2	Zapata				158	2½	2⅜	2⅜	
15½	9½	Zemex	.40	4.2		1	9½	9½	9½	
21½	18	ZenithE				1746	13⅝	d12⅞	13	- ⅛
2⅛	⅜	vjZenLb				1790	⅜	⅜	½	- ⅛
21½	15	ZenNB	.84	4.6	6	x58	18⅜	18	18¼	
18¼	7⅛	Zenlx	1.28	18.		132	8	7⅞	7⅞	
18½	18½	Zero s	.40	2.4	14	488	16½	16	16¼	
44¼	25⅛	Zurnin	.88	1.8	16	235	38⅝	37½	37⅝	-1
15⅜	10	Zweig	1.12e	9.6		208	11⅝	11½	11⅝	
10⅛	9⅛	ZweigTl	.96	9.6		938	9⅞	9⅝	9⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices October 25

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Prism		12	14	8⅛	3⅛	3⅛	+ ⅛
ProMed	.42	18	28	5	4⅞	4⅞	
ProlCre		18	30	5⅛	4⅞	5⅛	+ ⅛
— R-R —							
Ragan	.18		1	24⅛	24⅛	24⅛	+ ⅛

NASDAQ NATIONAL MARKET

3pm prices October 25

Stock	Div.	Sales 100s	High	Low	Last	Chng
Worthg	.56	17 400	23⅝	23⅛	23½	+ ⅛
Wyman	.56	26	15½	15	15½	
-X-Y-Z-						
XL Dta s		14 987	16⅝	16⅛	15⅞	+1⅛
XOMA		542	22	21½	21½	+ ⅛
Xicor		9 1279	4⅞	4½	4⅞	+ ⅛
YankEnS	.35e	240	21⅞	21⅛	21⅞	+ ⅛
YellowF	.76	17 183	25⅝	25⅜	25½	+ ⅛
YorkRs		44	9	8⅞	9	
ZionUt	1.44	22	30½	30⅛	30⅛	

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AMERICA

Dow picks up in calmer session

Wall Street

CALM returned to Wall Street yesterday afternoon, in the absence of futures-related programme trading which had triggered the extreme volatility in Tuesday's equity market, *writes Karen Zagor in New York.*

At 2 pm, the Dow Jones Industrial Average was up 7.38 points at 2,666.60. The Dow index of blue chip issues had dropped by more than 80 points the previous day. Trading on the New York Stock Exchange was moderately heavy, with more than 101m shares changing hands by 1.30 pm. Declining issues outpaced those advancing by a ratio of seven to six.

The gain in the Dow was not echoed in broader market indices. The Standard & Poor's 500 was down 0.19 points at 343.51 at 1.30 pm. The New York Stock Exchange Composite slid 0.05 points to 190.00 and the American Stock Exchange Composite was down 0.42 points at 375.94.

The debt market moved modestly higher at midday, when the Treasury's bellwether 30-year bond was ⅜ point higher at 102¾, yielding 7.88 per cent. Buying was said to be sizeable for the long bond. At the short end of the yield curve, the three year issue was also up ⅛ to yield 7.81 per cent.

In the absence of any significant economic data, the debt market concentrated on the auction yesterday of $4.5bn in 30-year government-backed Refco bonds, the first stage of the financing for the bail-out of the thrift industry.

The debt, equity and foreign exchange markets were all focusing on today's US third quarter gross national product data, which traders hope will indicate whether the Federal Reserve will ease monetary policy soon.

GNP is expected to have grown at an annual rate of 2.5 per cent in the third quarter, unchanged from the second quarter.

UAL, the takeover issue which contributed to the uncertainty in Tuesday's trading after the company's board said it would remain independent, yesterday fell $1⅞ to $165⅞. The stock recovered on Tuesday from a drop of more than $30 after rumours that Mr Donald Trump, the property developer, had been buying shares.

Among other airline issues, USAir fell $⅞ to $39⅝, Pan Am added $⅛ to $3⅞. Texas Air rose $⅞ to $13¾ and AMR, parent of American Airlines, gained $1⅛ to $70.

Delta Air Lines gained $⅞ to $66⅝ after posting a third-quarter gain of $3.53 a share compared with $2.03 a year earlier.

Du Pont gained $2⅜ to $117⅞ after the big chemicals company posted net income in the third quarter of $2.36 a share against $1.91 a year earlier.

Xerox fell $2⅛ to $60⅞; a number of analysts downgraded their investment ratings after the company posted disappointing third-quarter earnings. The reported net income of $1.36 a share on a fully diluted basis was essentially unchanged from the previous year and at the low end of expectations.

TW Services fell $1⅞ to $31⅞ in the wake of the postponement of a $1.4bn junk bond offering, which was part of the financing for Coniston Partners' acquisition of the company.

Manville jumped $⅞ to $10 after the company offered to repurchase $500m of convertible preferred stock from the trust handling its payments to asbestos victims.

Bethlehem Steel added $⅞ to $17⅞ in spite of posting a sharp decline in third-quarter earnings. Net income was 54 cents a share against $1.27.

Armco, which also saw third-quarter earnings fall, to 35 cents a share from 39 cents a year earlier, gained $⅛ to $10⅞ at midsession.

Among other big steel companies, USX was unchanged at $33⅞. A number of blue chip issues posted gains, including Woolworth, up $1⅞ at $59⅞.

Canada

INVESTORS were busy hunting for bargains in early trading in Toronto, and share prices made gains.

The composite index rose 13.4 to 3,913.5 with 13m shares changing hands. Declining shares outweighed advancing ones by 254 to 224.

Comments by Mr Alan Greenspan, US Federal Reserve chairman, about the American economy helped to boost Canadian markets.

Cineplex Odeon was unchanged after the company announced that its chairman was planning a takeover bid of C$15.40 per common share.

Provigo rose C$⅜ to C$9⅞ after the company said it would sell its non-food businesses.

SOUTH AFRICA

A FIRMER bullion price helped Johannesburg gold issues rise yesterday. Vaal Reefs picked up R6.50 to R314 and Western Deep added R2.50 to R128.

Pakistan strives after the big time

But insider trading and raiding are still rife, writes **Christina Lamb**

PAKISTAN'S stock market is preparing for a huge expansion. Prime Minister Benazir Bhutto's privatisation plans, which she hopes will raise Rs2bn (just less than $100m) this year, will double the market, and a new stock exchange is opening in Islamabad.

In addition, the Asian Development Bank (ADB) and Merrill Lynch are discussing setting up a $50m Pakistan Fund this year, to be listed on the London and New York stock exchanges. They hope to attract back some of the $1.7bn that, according to International Monetary Fund estimates, is invested by Pakistanis overseas. The ADB proposes to issue shares outside the country, the proceeds to be invested in companies listed in Pakistan.

Although the country's stock market has grown strongly over the last few years, aided by a developing new issue market, it is still small in scale. There are few investors and, when investment company Rothschild prepared the privatisation feasibility study, its biggest reservation was over the depth of the capital market.

Mr Yaqub Umer, a director of the Karachi Stock Exchange, points out: "Less than 1 per cent of the population are share-minded. There are fewer than 700,000 investors. In India, large companies have three or four thousand investors, but here they have less than 250."

Mr Arif Habib, Vice President of Karachi Stock Exchange, says there are large funds available, but there are few companies to invest in – 424 are listed.

In a country where less than 1 per cent of the population pay tax, private companies rarely go public, because being listed means opening their books to officialdom. Most of the companies on the stock exchange are Pakistani offshoots of multinationals, mainly oil and pharmaceutical companies.

In the 1970s, under the nationalisation programme of Mr Zulfikar Ali Bhutto, Pakistan's first elected premier, trading activity declined almost to nothing. However, in 1986, the Government gave incentives, such as making dealing tax free and reducing the tax rate on listed companies by 10 points to 40 per cent. Since then, trading has shot up from 200,000 shares a day to more than 1m.

There is plenty of cash around in Pakistan, even if much of it is from the black economy. After reassurances

Privatisation plans: Bhutto

from Ms Bhutto that she would not raise the spectre of nationalisation, in March the Karachi index went up to a record 1,665 from 1,450. It has since come back to 1,577; there are fears of violence in Sind, following the tabling of an opposition motion of no confidence in Ms Bhutto.

Bigger problems may be the lack of effective controls against multiple applications to new issues, and insider trading. Directors of the Karachi Stock Exchange admit that banks accept bribes to allow multiple applications and that the new issue market is regularly cornered by raiders.

Trading in individual companies has been suspended regularly since kerb trading was replaced by provisional listings, shares being traded unofficially after the prospectus is published but before they are listed on the ready board. Syndicates buy large blocks before the final listings appear, use these to get representation on the board of directors, and threaten the controlling shareholders by sitting on the board and meddling until the rest of the board pays a heavy premium to get the syndicate out.

In the most recent incident, a well-known manipulator bought large stocks in Atlas BOT, when it was unlisted and being unofficially traded. A million shares were offered to the public, the price opening at between Rs26 and Rs35.

As the price went up, people started selling short; the raider was able to "buy" more than the 500,000 shares offered. When the share price reached Rs80, the directors called a meeting, but by the time they met two and a half hours later, the price was Rs170, the trading floor was in chaos and the whole market was suspended.

Hectic negotiations followed, because people could not deliver the shares. The raider finally dropped his demand from Rs350 to Rs191, still making Rs20m in the process.

EUROPE

Favourable news ignored as depression sets in

WITH the accent on Wall Street's volatility, rather than its resilience, sentiment stayed depressed on the Continent, *writes Our Markets Staff.*

FRANKFURT trembled as the DAX index fell below 1,500. It peaked at 1,658.12 last month. Weight of capital arguments joined Wall Street's fragility and domestic political worries to take the DAX 26.29 lower to 1,481.08 at the close, after an 11.03 fall to 624.76 in the FAZ at mid-session.

The market chose to ignore possible bull points, such as higher bond prices and a slowdown in monetary growth in September. Volume eased up a little, from DM3.2bn to DM3.5bn.

Preussag fell DM7.80 to DM350 after announcing a rights issue of 6.06m shares to finance the DM2bn Salzgitter acquisition, formally approved by the Bonn Government on Tuesday. Terms have not been set, but at a DM250 issue price Preussag would raise DM1.5bn. The remaining part of the price might be covered by bank lending and asset sales after the transaction.

MADRID came off fairly sharply on a combination of Wall Street, and the chance that the Socialists could fail to secure an absolute majority in Sunday's general elections. Volume remained low as the general index lost 3.87 to 309.51.

BBV, the banking group, was reported to have increased its stake in Iberduero, the utility company, to 15 per cent from 8 per cent. BBV also has a stake in Hidrola, another utility, and is said to have been buying both to strengthen its position. Iberduero was down 7 points at 650 per cent of par but Hidrola rose 6 to 550.

PARIS had "everyone sitting around with glum faces," said one analyst. Nervousness about Wall Street was made worse by the absence of a good takeover story and volume was estimated at a low FFr2bn to FFr2.5bn. Shares ended weaker, though off their lows, with the OMF 50 index down 1.89 at 501.50.

With Paribas having launched its bid for Navigation Mixte, speculation returned to Paribas' shares, which rose FFr9 to FFr610. There were suggestions – already well aired – that Mixte was planning a takeover of Paribas, or that Paribas and allies were buying the bank's shares to enhance the value of the cash or share offer for Mixte. A newer view was that Mr Marc Fournier, chairman of Mixte, would launch a counter-bid for his own company with a consortium of allies.

Béghin-Say, the sugar producer, rose FFr5 to FFr675 after reporting a 40 per cent rise in first half profits. It also announced it would spin off its remaining paper operations by the end of January, which would allow it to put off a mooted capital increase.

MILAN fell across the board in moderate trading, depressed by the weakness of stock markets elsewhere in the world, and unsettled by conflict in the shareholders' syndicate of Nuovo Banco Ambrosiano (NBA). The Comit index fell 6.82 to 645.61.

The banking sector was among the weakest, the sub-index losing 2.66 per cent in the knowledge that the Board of Gemina, the Agnelli-associated investment company which is a key shareholder in NBA, was scheduled to meet yesterday. Speculation that it may decide to dissolve the syndicate had little impact on NBA itself, the shares easing L20 to L4,885, but the whole affair is seen as very negative for the bourse.

Banca Commerciale Italiana fell L180 to L4,820, before losing a further L65 in after-hours trading. Gemina fell L75 to L2,061 while Generali, the disappointed suitor for the NBA stake, slipped L210 to L41,200.

ZURICH had an active session. Selling began shortly after the opening, in response to options-related disposals in the chemicals sector, which led to a sheaf of sell orders elsewhere. The Crédit Suisse index fell 10.4 to 610.2.

Among chemical shares, Ciba-Geigy fell SFr55 to SFr3,750. However, Roche bearers finished unchanged against the trend; BNP Securities, the London offshoot of Banque Nationale de Paris, recommended the shares on Tuesday, talking about "very strong" earnings prospects for 1989.

AMSTERDAM was relieved when New York recovered from its initial losses and the CBS tendency index did likewise, closing unchanged at 183.2 after a 2.9 per cent fall on Tuesday. Turnover was restricted, however, as many investors decided to wait for clearer directions.

BRUSSELS declined in dull trading after Wall Street's uninspiring opening yesterday. The cash market index lost 103.11 points, or 1.6 per cent, to 6,460.42.

Groupe AG, the insurer, dropped BFr775, or 5.6 per cent, to BFr13,000 after the company's chairman told a local newspaper that speculators had manipulated the price of AG's stock and warned that they would get their fingers burnt.

Arbed, the steel maker, fell back BFr280, or 5 per cent, to BFr5,420.

STOCKHOLM was unnerved by Wall Street's volatility and fell back in fairly active turnover. The Affärsvärlden General index lost 13.6 points, or 1.1 per cent, to 1,245.6.

Companies reporting results defied the downward trend, with free B shares of leading construction group Skanska steady at SKr350, after the company reported a 57 per cent rise in eight-month profits.

OSLO was still in a nervous frame of mind before a number of corporate results. Norsk Hydro, which announces third-quarter figures today, lost NKr6.50 to NKr140. The all-share index dropped 9.79 points, or 2 per cent, to 486.98.

COPENHAGEN eased in thin volume as the likelihood of an early general election next year grew. The current minority Government is facing difficulties over gaining opposition support for its 1990 budget. The bourse index slipped 2.41 to 338.55.

ASIA PACIFIC

Nikkei slips as restless investors take profits

Tokyo

PROFIT-TAKING and arbitrage selling led the way and share prices ended lower for the second day running, *writes Michiyo Nakamoto in Tokyo.*

After rising moderately in earlier trading, the Nikkei average turned round to close down 84.15 at 35,442.40, the day's low. The high, at 35,645.47, was just 44 points below the record of 35,689.98, set on September 28. Declines greatly outnumbered advances by 668 to 289, while 169 issues were unchanged.

Turnover rose to 1.1bn shares from 914m on Tuesday. The Topix index of all listed shares lost 8.65 to 2,672.57, but the ISE/Nikkei 50 index in London rose 4.38 to 2,058.36.

The volatility on Wall Street and the solid gains that Tokyo has seen in the past week encouraged investors to take profits where they could. Although the decline suggested sagging interest, said Mr George Nimmo at SBCI Securities, "in terms of value, the Tokyo market is really very healthy." Little new money was coming in, but funds already there were being actively traded, he noted.

Investors were restless, however, and many stocks failed to sustain their early upward momentum. Most recent market themes have been short-lived, with investors quick to take profits and move on. Analysts expected this nervous rotational buying to continue until short-term interest rates fell, which in turn depended largely on the yen.

Buying interest fled from some recent winners, such as Tokyu, the railway company, which lost Y10 to Y2,550 in the day's second most active trading of 59m shares. Sekisui House lost Y70 to Y2,640.

High-technology issues lost further ground as investors sold stocks that might be affected by Wall Street's weakness. Pioneer retreated Y90 to Y5,810, Victor Co of Japan declined Y50 to Y2,640 and Fuji Photo Film dropped Y130 to Y4,700.

Takeover and merger speculation shifted to the non-life insurance sector, where deregulation is expected to lead to restructuring in the industry. Yasuda Fire and Marine rose Y110 to Y1,590 and Nippon Fire and Marine gained Y60 to Y1,860, both in active trading. Yasuda Fire and Marine was further favoured for its latent assets, which are thought to make it an attractive takeover target, while Nippon Fire and Marine was the subject of speculative talk because it does not belong to any big financial organisation.

Investors appeared keen on general contractors, although analysts said that a good deal of the activity was dealer-led. Kajima, one of the large construction companies, rose Y140 to Y2,300 and Ohbayashi advanced Y40 to Y1,770. JDC, a medium-sized contractor, was bought on expectations that it would post another record profit for the year to March. It closed Y30 higher at Y1,440 after reaching Y1,520.

Osaka *fell back on profit-taking* in a cautious market and the OSE average lost 102.92 to 36,548.16. Volume reached 99m shares from 88m on Tuesday.

Roundup

WALL STREET'S bumpy ride on Tuesday was one reason why markets fell further in the Pacific Basin yesterday. Most of them, however, added a touch of local seasoning.

AUSTRALIA, for example, worried about its long-term debt rating, and then picked up on news of a current account deficit cut to A$1.78bn from the record A$2.51bn in August. However, the All Ordinaries index closed 15.5 down at 1,633.7 after a low of 1,628.0.

Turnover eased to 86m shares and A$177m, from 172m and A$224m. The market welcomed the trade news, but *immediately focused on inflation data,* due today.

Mining shares made the biggest losses, hit by volatility in the Australian dollar. Among the leading issues, Western Mining dropped 22 cents to A$5.72 and CRA slipped 15 cents to A$10.90.

Poseidon went against the trend, adding 10 cents to A$2.90 as it lifted its stake in Poseidon Exploration, steady at 40 cents, to 86.9 per cent.

NEW ZEALAND worried about Australia, where some New Zealand companies have operations and others fund their debt at interest rates which show no signs of easing. The Barclays index shed another 40.40 points, or 1.9 per cent, to 2,091.14.

HONG KONG winced after an angry Chinese response in the illegal immigrant repatriation dispute which, the local *Government said last week,* had been resolved without any concessions by Hong Kong. In addition, the auction result of a warehouse site at about HK$200m was below market expectations of HK$250m to HK$280m.

The Hang Seng index dropped 25.37 to 2706.60 in turnover of HK$658m, down from HK$825m, and the lowest since September 20. Properties posted the sharpest declines.

SINGAPORE was concerned about Wall Street and forgot, for the time being, the prospect of a bullish Malaysian budget tomorrow. The Straits Times industrial index fell 25.17 to 1,333.25 in moderate volume. Malayan Credit TSR, off 1 cent at 89.5 cents, topped the active list with 4.3m units changing hands on rumours of a possible takeover offer.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY OCTOBER 24 1989						MONDAY OCTOBER 23 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	146.89	−1.3	135.56	126.89	−1.1	5.21	148.79	138.31	126.36	160.41	128.28	147.73
Austria (19)	163.79	+0.4	151.18	156.78	−0.4	1.55	163.14	151.64	157.35	172.22	92.84	95.02
Belgium (63)	144.03	+0.9	132.92	137.82	+0.2	4.01	142.70	132.64	137.60	144.49	125.58	128.47
Canada (122)	148.86	−0.3	137.38	126.33	−0.4	3.25	149.36	138.84	126.81	154.17	124.67	125.68
Denmark (36)	210.39	+1.9	194.16	205.02	+1.0	1.55	206.44	191.89	202.93	219.89	165.35	144.77
Finland (26)	124.99	+0.4	115.35	110.98	−0.3	2.54	124.54	115.77	111.27	159.16	123.12	124.98
France (128)	133.93	−1.0	123.60	131.25	−1.8	2.87	135.25	125.72	133.68	139.94	112.57	106.10
West Germany (97)	98.33	+0.8	90.74	94.01	−0.9	2.19	98.04	91.13	94.55	103.84	79.56	85.06
Hong Kong (48)	115.21	−0.1	106.32	115.48	−0.1	4.89	115.36	107.23	115.65	140.33	86.41	106.00
Ireland (17)	163.67	+1.2	151.05	159.49	+0.4	2.78	161.78	150.36	158.83	166.69	125.00	141.36
Italy (97)	88.08	−0.9	81.29	88.90	−1.7	2.57	88.90	82.63	90.46	96.73	74.97	82.89
Japan (455)	187.28	+0.3	172.84	167.57	−0.3	0.48	186.79	173.63	168.02	200.11	164.22	166.71
Malaysia (36)	202.89	−0.3	187.24	210.31	−0.4	2.52	203.60	189.16	211.15	209.22	143.35	139.78
Mexico (13)	325.94	+0.7	300.80	932.60	+0.8	0.56	323.63	300.82	925.26	326.61	153.32	155.19
Netherland (43)	126.40	−2.0	116.65	119.82	−2.9	4.43	129.02	119.93	123.37	131.72	110.63	109.37
New Zealand (19)	77.89	−1.8	71.88	70.00	−2.0	5.04	79.33	73.74	71.42	88.18	62.54	73.92
Norway (24)	175.10	−1.5	161.59	163.57	−2.1	1.58	177.79	165.26	167.05	198.39	139.92	116.77
Singapore (26)	159.82	−0.8	147.50	144.14	−0.7	2.06	160.84	149.51	145.18	170.62	124.57	121.19
South Africa (60)	143.94	−0.4	132.84	125.10	+0.4	4.53	144.55	134.37	124.65	160.24	115.35	108.96
Spain (43)	160.46	+0.2	148.09	142.59	−0.6	3.70	160.10	148.82	143.48	169.75	143.14	150.34
Sweden (35)	178.84	−0.4	165.04	189.31	−1.1	2.03	179.62	166.96	171.24	188.94	138.45	129.04
Switzerland (64)	87.99	−0.9	81.20	87.93	−1.7	2.15	88.80	82.54	89.46	94.16	67.81	83.18
United Kingdom (306)	141.46	−1.0	130.54	130.54	−1.7	4.68	142.92	132.85	132.85	158.41	133.28	135.67
USA (547)	139.58	−0.4	128.81	139.58	−0.4	3.32	140.07	130.20	140.07	146.29	112.13	115.16
Europe (996)	125.04	−0.7	115.40	117.97	−1.5	3.56	125.89	117.02	119.71	132.95	112.63	112.61
Nordic (121)	168.97	+0.4	155.94	155.24	−0.4	1.84	168.33	156.46	155.61	178.36	137.95	123.12
Pacific Basin (669)	182.96	+0.2	168.85	163.92	−0.3	0.72	182.60	169.73	164.41	194.72	160.44	165.33
Euro–Pacific (1665)	159.87	−0.1	147.54	145.53	−0.7	1.62	160.00	148.73	146.51	166.98	141.56	144.27
North America (669)	140.04	−0.4	129.23	138.75	−0.4	3.31	140.53	130.62	139.24	146.66	112.79	115.71
Europe Ex. UK (690)	113.99	−0.4	105.20	110.10	−1.3	2.81	114.49	106.42	111.50	118.51	96.30	98.12
Pacific Ex. Japan (214)	131.06	−0.8	120.95	118.42	−0.9	4.78	132.25	122.93	119.44	140.05	111.93	124.57
World Ex. US (1860)	159.44	−0.1	147.15	144.94	−0.6	1.70	159.59	148.34	145.89	166.35	141.49	143.29
World Ex. UK (2101)	152.28	−0.1	140.53	144.32	−0.4	2.00	152.43	141.69	144.96	156.04	136.98	132.06
World Ex. So. Af. (2347)	151.34	−0.2	139.68	143.15	−0.6	2.21	151.60	140.92	143.95	155.92	136.67	132.50
World Ex. Japan (1952)	134.24	−0.5	123.89	130.49	−0.8	3.47	134.90	125.39	131.49	140.43	114.51	114.96
The World Index (2407)	151.29	−0.2	139.62	143.02	−0.6	2.22	151.56	140.88	143.81	156.89	136.68	132.36

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Latest prices were unavailable for this edition.

Cemex, S.A.
has acquired
Empresas Tolteca de Mexico, S.A. de C.V.
a joint venture between Blue Circle Industries PLC and
a group of Mexican investors,
and
the western U.S. cement properties of
Blue Circle Industries PLC

Cemex now becomes the second largest cement producer
in the Americas and one of the top four in the world.
It also becomes the largest Mexican private sector company
with a combined market capitalization of U.S.$1.7 billion.

Morgan Guaranty acted as financial advisor
and escrow agent to Cemex in this
U.S. $725 million transaction.

JPMorgan

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